November 30, 2022

Vaasudevo City Bus Operations Private Limited: Rating reaffirmed, rated amount enhanced

Summary of rating action

Instrument^	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Term Loan	167.05	86.20	[ICRA]A-(Stable); reaffirmed
Long-term Letter of Credit* (Interchangeable)	(80.85)	-	-
Long-term Bank Guarantee (Interchangeable)**	(80.85)	-	-
Long-Term Fund based (Cash Credit)	-	11.20	[ICRA]A-(Stable); reaffirmed/assigned
Long-term Non-fund Based (Bank Guarantee)	-	80.85	[ICRA]A-(Stable); reaffirmed/assigned
Total	**167.05**	**178.25**	

*^Instrument details are provided in Annexure-1; *sublimit of LOC limit, **Sanctioned against letter of comfort from project lender*

Rationale

The rating reaffirmation for Vaasudevo City Bus Operations Pvt Ltd (VCBOPL) factors in the successful delivery of the entire 175 buses to Lucknow City Transport Services Ltd. (the authority; thus, eliminating project implementation risk) and the satisfactory operational track record of 100-buses (lot 1) of nearly 11 months. The rating action also factors in the recent refinancing of its project debt on favourable terms, which evidence lender comfort with the SPV and overall business model. The commercial operation date (COD) for the first lot of 100 buses was declared on January 1, 2022, and the remaining 75 buses were delivered by September 2022. The operational performance of the buses till date has been largely in line with expectations and receivable realisation has also been timely (90% of overall receivables received within 90 days) since the commencement of commercial operations. Aided by a lower project cost (aided by subsidy availability under FAME II[1] scheme), long tenure of project debt and competitive interest rates, the debt coverage metrics for the project are expected to remain comfortable over the debt repayment tenure. ICRA notes that a healthy portion of eligible FAME subsidy (viz., 43% overall; 100% of first tranche and ~60% for second tranche) has already been received by the SPV in a timely manner, with further receipts likely over the near term.

The rating continues to factor in VCBOPL's strong parentage, with majority economic interest held by GreenCell Mobility Private Limited (GCM; rated [ICRA]A+(Stable)/[ICRA]A1). GCM's credit profile is supported by its superior financial flexibility for having strong sponsors and the large capital commitments made by the sponsors—National Investment and Infrastructure Fund Limited (NIIF, India's first sovereign wealth fund) and the Government of the United Kingdom's (UK) Department for International Development (DFID) being the anchor investors—through the Green Growth Equity Fund (GGEF). The presence of a strong sponsor and a shortfall undertaking from GCM to the lender is a credit positive and likely to ensure timely availability of funds to meet any incidental funding requirements for the project. Despite some delay in delivery of certain bus parts (mainly battery) due to Covid related lockdowns in China, GCM infused incremental funding of Rs. 44 crore in VCBOPL in FY2022

[1] *Faster Adoption and Manufacturing of Electric vehicles Scheme*

(in form of non-convertible debentures)[2] to accelerate procurement of the buses, pending release of FAME subsidy, evidencing its commitment to the project.

Further, the rating takes comfort from the revenue visibility for VCBOPL as the 10-year concession agreement (CA) with the authority essentially translates into an annuity model of revenues wherein the SPV (viz., VCBOPL) will be paid a fixed rate for a minimum assured distance of 180 km/bus/day, subject to the assured bus availability. ICRA also draws comfort from the presence of an established key component supplier (KCS), Beiqi Foton Motors (Foton), China, and the multi-partite agreements with the Original Equipment Manufacturer (OEM), viz., PMI Electro Mobility Solutions Private Limited (PEMPSL) and KCS for after sale maintenance. Further, the operational risks are mitigated to a large extent as annual maintenance costs (AMC) and operator costs are largely stable, given the fixed-price contracts with the OEM and operator, as well as back-to-back arrangements for passing on any incremental costs or penalties in case of bus non-availability.

The project remains susceptible to counterparty risks, given the nature of intra-city 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 is obligated to deposit the revenues from ticket collections while also maintaining three months of revenue payable as a payment reserve. The authority has also provided a revolving LC equivalent to another three-months of revenue payables. Additionally, the presence of the State Government of Uttar Pradesh (through the Directorate of Urban Transport, Department of Urban Development) as a party in the CA, and the creation of a corpus through imposition of a 2% cess on property transactions, 25% of which is earmarked for urban transportation requirements, offers comfort regarding the authority's ability and commitment to honour its obligations.

The Stable outlook on the rating reflects ICRA's opinion that the company's revenue visibility will remain stable, supported by consistent operational performance and the availability of long-term agreement with the authority. GCM, one of the parent entities, is expected to support the project through any funding support till the operations fully stabilise.

Key rating drivers and their description

Credit strengths

Strong parentage as majority economic interest lies with GCM, where sovereign funds are anchor investors– GCM (which holds 49% equity stake and 74% economic interest in VCBOPL and TCBOPL) is a mobility platform of GGEF, a SEBI registered Category II Alternate Investment Fund (AIF). GGEF's anchor investors are the Government of India anchored NIIF 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 850 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 the promoter (GCM) to the lender are likely to ensure timely availability of funds to meet any incidental funding requirements.

High revenue visibility as CA provides fixed fee on per km basis for an assured distance subject to bus availability, even as receipts from ticket collections for intracity operations are likely to remain inadequate – As per the terms of the Bus Operator

[2] *The NCD's were infused to accelerate delivery of buses by making advance payment to the supplier and make-up for the deficit of FAME-subsidy (last tranche of 40% becomes a receivable after 6 months of operations); The NCD coupon is 21% and the tenure is 10.5 years; in line with waterfall mechanism/restricted payment terms, upstreaming would be done after meeting restrictive payments and with due lender intimation/approval.*

Agreement, the Authority would pay the SPV a fixed rate[3] for a minimum assured distance of 63,000 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 (total of 6 spare buses) is likely to aid the company in ensuring the required fleet availability and aid in a stable revenue profile. However, the clause related to unutilised km would be paid at 75% of the applicable 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 Government grants/support to authorities for funding the gap remains critical.

Back-to-back arrangements for maintenance and operations mitigate operational risks – Although slightly behind schedule due to Covid-related restrictions (in China), the SPV achieved delivery of all buses by September 2022, with its entire fleet of 175 e-buses delivered, charging infrastructure installed and depot handed over. The SPV has entered into a sales and after-sales agreement with PMEPSL (OEM) and Beiqi Foton (based in China; Key Component Supplier (KCS), as per which the OEM and KCS are responsible for maintaining the buses, through an annual maintenance contract (AMC). A similar agreement has been executed with the operator (Hansa Travels) for bus operations. Any penalties arising due to non-compliance with terms of the Bus Operator Agreement would be recovered from the OEM completely, which further mitigates risks and reduces cash flow variability.

Government focus on promoting e-mobility through capital subsidy supports 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 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), exemptions or reductions on road tax, registration tax, and subsidised electricity tariffs etc. The tender to operate e-buses in Uttar Pradesh is part of the FAME II scheme, wherein the OEM is eligible for a subsidy of Rs. 45 lakh per bus (~53% of bus cost). The subsidy is to be released in three tranches within six months of commencement of operations (~43% of subsidy already received) and has aided in significantly reducing the capital cost of the project, thereby improving project viability.

Credit challenges

Counterparty risks owing to likely receivable build-up; mitigated to an extent by escrow mechanism in place – While counterparty risk for such projects is elevated because of low ticketing collection (compared to amount payable under the contract), the presence of an escrow mechanism, wherein the authority has deposited three months of revenue payable upfront as a payment reserve, reduces risks of elongated receivables to an extent. The authority has also provided a revolving LC equivalent to another three-months of revenue payables in favour of the SPV. Additionally, the presence of a corpus created by the Government of Uttar Pradesh, through implementation of 2% cess on property transactions, 25% of which is earmarked for urban transportation requirements[4], would also support the authority in meeting its obligations. Finally, the requirement to route all transactions - including ticket collections - through the escrow account by the authority reduces the risk of revenue leakages from the project.

Limited track record of OEM's operations in e-bus segment – The OEM, PEMPSL, has so far supplied about 850 e-buses over the past 3-4 years in India. Given the limited track record of e-bus operations, OEM's ability to supply and maintain these buses as per the specifications of the Bus Operator Agreement remains critical. Any underperformance in operation vis-à-vis agreed specifications, especially that which impacts the availability and reliability of buses, has potential to impact the project viability, and hence, would be a key monitorable; ICRA notes that the project has been able to largely meet the specification as per the

[3] *As per the terms of the CA, the fee shall be revised every six months, on the basis of variation in electricity tariff for charging of buses, CPIIW and WPI as per the formula set forth in the CA.*

[4] *As per the management, the cess collections have amounted to Rs. 1,600 crore annually, of which Rs. 400 crore has been earmarked for urban transportation, and only Rs. 80-90 crore is currently being utilised for the same*

concessionaire agreement from the commencement of operations till date. ICRA continues to take comfort from the presence of a strong technical partner, Foton, which has supplied about 15,000 e-buses globally[5] and has an established track record of operations. Moreover, back-to-back arrangement with the OEM to pass on any penalties that could arise due to non-availability of buses mitigates risks to some extent.

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

While the project has recently commercialised and is still in the process of stabilisation, its liquidity position is **adequate** supported by operational surplus, subsidy receivable from DHI, and undrawn working capital lines. The SPV has debt servicing obligations of 15-16 crore in FY2023 and Rs. 10-12 crore in FY2024. ICRA notes that 43% of the subsidy has already been released to the SPV and another 40% (~Rs. 32 crore) is expected in H2 FY2023. Meanwhile, the promoters have infused 100% of the equity and have also extended additional funding support (Rs. 36 crore) to the SPV. The liquidity of one of the promoter entities, GCM, is expected to remain strong, with availability of adequate funds for any incidental funding requirement of the SPV or any new projects undertaken. Moreover, the backing of a strong promoter renders the SPV with ample financial flexibility to raise/refinance debt from financial institutions.

Rating sensitivities

Positive factors – The rating could be upgraded once the project is able to demonstrate an adequate track record of operations and timely payments by the Authority. In addition, timely receipt of the FAME subsidy will also remain key.

Negative factors – Negative pressure on rating could arise if there are any major delays in receipt of subsidy or build up in receivables, increasing reliance on external borrowings and, thereby, weakening credit metrics. 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, GCM (rated [ICRA]A+ (Stable)/[ICRA]A1]), extending financial support to it because of the close business linkages between them. ICRA also expects GCM to be willing to extend financial support to VCBOPL 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

Vaasudevo City Bus Operations Private Limited (VCBOPL) is an SPV set up to procure, operate and maintain 175, nine-metre-long, fully built, AC electric buses for intra-city public transportation in Lucknow, Gorakhpur, and Varanasi. The SPV was set up by a consortium headed by PMI Electro Mobility Solutions Private Limited, which was the successful bidder for the projects. Subsequently, Greencell Mobility Private Limited was roped in as a strategic investor, which currently holds 49% stake while

[5] *Company website*

the remaining is held by the PEMPSL consortium. As per the terms of the CA[6] and with authority approval, GCM plans to increase its stake in the SPV to 74% after three years from the COD. The SPV will be operating the buses for a period of 10 years on Gross Cost Contract (GCC) basis under the FAME II scheme and is eligible for a subsidy of Rs. 45 lakh per bus from the Government of India. All 175 buses have been delivered (as of September 30, 2022) and operational as on date.

Key financial indicators (audited):

Standalone	FY2022
Operating income (Rs. crore)	23.2
PAT (Rs. crore)	-1.7
OPBDIT/OI (%)	-2.9%
PAT/OI (%)	-7.4%
Total outside liabilities/Tangible net worth (times)	14.0
Total debt/OPBDIT (times)	NM
Interest coverage (times)	NM

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; NM – Not meaningful
Source: Company data; ICRA Research

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 Oct 31, 2022	Date & Rating in	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					Nov 30, 2022	Oct 27, 2021	Jun 8, 2021	-	-
1	Long-Term Term Loan	Long-term	86.20	76.9	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	-	-
2	Long-Term Non-fund based (Bank Guarantee)	Long-term	80.85	35.8	**[ICRA]A- (Stable)**	-	-	-	-
3	Long-Term Fund based (Cash Credit)	Long-term	11.20	-	**[ICRA]A- (Stable)**	-	-	-	-
4	Long-term Letter of Credit (Interchangeable)	Long-term	-	-	-	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	-	-
5	Long-term Bank Guarantee (Interchangeable)	Long-term	-	-	-	**[ICRA]A- (Stable)**	-	-	-

Sub-limit of LOC* * Sanctioned against LOC from project lender*

[6] *As per the CA, the initial bidder is required to stay invested for at least 51% during the first three years from COD and can reduce it to up to 26% thereafter.*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Bank Guarantee	Very Simple
Cash Credit	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 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: Click Here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Long-Term Term Loan	July 27, 2022	-	FY2030	86.20	[ICRA]A-(Stable)
NA	Long-Term Non-fund based (Bank Guarantee)	July 27, 2022	-	-	80.85	[ICRA]A-(Stable)
NA	Long-Term Fund based (Cash Credit)	July 27, 2022	-	-	11.20	[ICRA]A-(Stable)

Source: Company

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

Annexure-2: 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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