September 29, 2023

Vaasudevo City Bus Operations Private Limited: Rating upgraded to [ICRA]A (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term term loan	86.20	86.20	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Long-Term fund based limits	11.20	11.20	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Long-term non-fund based facilities	80.85	80.85	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Total	**178.25**	**178.25**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade for Vaasudevo City Bus Operations Pvt Ltd (VCBOPL) factors in the successful delivery of the entire 175 buses to Lucknow City Transport Services Limited (the Authority) and the satisfactory operational track record of more than a year now. The commercial operation date (COD) for the first lot of 100 buses was declared on January 1, 2022, and the remaining 75 buses was on August 27, 2022. The operational performance of the buses till date has been largely in line with expectations and receivable realisation has also been timely since the commencement of commercial operations. ICRA notes that a healthy portion of eligible FAME[1] subsidy (76% of the total) has already been received by the special purpose vehicle (SPV) in a timely manner, with balance subsidy receipt likely over the near term. The rating continues to factor in the favourable impact of lower project cost (aided by subsidy from the FAME II scheme), long tenure of project debt and competitive interest rates, that would keep the debt coverage metrics at comfortable levels over the tenure of debt repayment (DSCR on external debt (post provision for Major Maintenance Reserve Account (MMRA) to range at levels of 1.3-1.4 times over the medium term).

The rating continues to factor in VCBOPL's strong parentage, with majority economic interest held by GreenCell Mobility Private Limited (GMPL; rated [ICRA]A+(Stable)/[ICRA]A1). GMPL'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) Foreign, Commonwealth and Development Office (FCDO) being the anchor investors—through the Green Growth Equity Fund (GGEF). The presence of a strong sponsor and a shortfall undertaking from GMPL to the lender are credit positives and likely to ensure timely availability of funds to meet any incidental funding requirements for the project. Even in times of any delay in delivery of bus parts (mainly battery) due to Covid-related lockdowns in China, GMPL infused incremental funding of Rs. 44 crore in VCBOPL (in FY2022, in form of non-convertible debentures)[2] to accelerate procurement of the buses, pending release of FAME subsidy, evidencing its commitment to the project. Aided by receipt of subsidy in the recent past, the interim support funding has reduced to levels of ~Rs. 20 crore as of June 30, 2023.

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

[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.*

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 Motor Company Limited (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.

ICRA notes that the capex requirements for VCBOPL will be largely limited to the major maintenance expenditure (expected in FY2027). The company is provisioning for the MMRA on an annual basis, and ICRA expects cash accruals set aside to adequately fund this expenditure in due time.

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. 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. ICRA notes that the deposits to this escrow have been lumpy and not maintained on a regular basis; notwithstanding the same, comfort is from the presence of undrawn working capital facilities which could be utilised in case of material delays. 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. GMPL, 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 GMPL, where sovereign funds are anchor investors – GMPL (which holds a 49% equity stake and 74% economic interest in VCBOPL) 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 National Investment and Infrastructure Fund (NIIF) and the UK Government's Foreign, Commonwealth and Development Office (FCDO), who have together invested $340 million in the fund. As on date, the fund has been closed with total funding commitments of $741 million, with investments from NIIF, FCDO, CDC (British International Investment, the UK's development finance institution), FMO (Green Climate Fund/ Dutch Development Bank), Green Climate Fund, British Petroleum and others. 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 1,050 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 strong sponsors and a shortfall undertaking from the promoter (GMPL) 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

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 is likely to aid the company in ensuring the required fleet availability and maintain 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.

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 (~76% of subsidy already received for VCBOPL) 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 the 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 is expected to deposit 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. ICRA notes that the deposits to this escrow have been lumpy and not maintained on a regular basis; notwithstanding the same, comfort is drawn from the presence of undrawn working capital facilities which could be utilised in case of any material delays. 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, is also expected to 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 1,050 e-buses over the past three to four years in India. Given the limited track record of e-bus operations, the OEM's ability to supply and maintain these buses as per the specifications of the Bus Operator Agreement remains critical. Any underperformance in operations against 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 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 been supplying e-buses globally 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.

[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.*

Liquidity position: Adequate

VCBOPL's liquidity position is adequate, supported by operational surplus, subsidy receivable from DHI, and undrawn working capital lines. The SPV has debt repayment obligations (towards external debt) of ~Rs. 12 crore in FY2024. ICRA notes that 76% of the subsidy has already been released to the SPV, without much delay. 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 – ICRA could upgrade the rating, in case of any sustained track record of operations and timely receipt of payments from the counterparty. An improvement in the credit profile of the parent entity could also lead to a review of the rating.

Negative factors – Negative pressure on the rating could arise if there are any major delays in receipt of balance subsidy or build up in receivables, increasing reliance on external borrowings and, thereby, weakening credit metrics. Specific credit metrics that could lead to a downgrade include DSCR on external debt (post provision for MMRA) below 1.2 times, on a sustained basis. 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
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 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 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 holds a 49% stake while the remaining is held by the PEMPSL consortium. As per the terms of the CA[4] and with authority approval, GMPL 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 and operational as of September 30, 2023.

[4] *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.*

Key financial indicators (audited)

Standalone	FY2022	FY2023
Operating income	23.2	70.7
PAT	-1.7	6.2
OPBDIT/OI	20.0%	51.7%
PAT/OI	-7.4%	8.8%
Total outside liabilities/Tangible net worth (times)	14.0	8.0
Total debt/OPBDIT (times)	33.4	3.8
Interest coverage (times)	0.9	2.0

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as of Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021
					Sep 29, 2023	Nov 30, 2022	Oct 27, 2021	Jun 08, 2021	-
1	Term Loan	Long-term	86.20	69.62	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
2	Fund Based Limits	Long-term	11.20	-	[ICRA]A (Stable)	[ICRA]A- (Stable)	-	-	-
3	Non-Fund Based Facilities	Long-term	80.85	80.80	[ICRA]A (Stable)	[ICRA]A- (Stable)	-	-	-
4	Letter of Credit (Interchangeable)*	Long-term	-	-	-	-	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
5	Bank Guarantee (Interchangeable)**	Long-term	-	-	-	-	[ICRA]A- (Stable)	-	-

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

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Non-Fund Based Facilities	Very Simple
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	**Long-Term Term Loan**	July 27, 2022	-	FY2030	86.20	[ICRA]A (Stable)
NA	**Long-Term Fund Based Limits**	July 27, 2022	-	-	11.20	[ICRA]A (Stable)
NA	**Long-Term Non-Fund based facilities**	July 27, 2022	-	-	80.85	[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

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545 328
shamsherd@icraindia.com

Srikumar K
+91 44 4596 4318
ksrikumar@icraindia.com

Rohan Kanwar Gupta
+91 124 4545 808
rohan.kanwar@icraindia.com

Debadrita Mukherjee
+91 124 4545 394
debadrita.mukherjee@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

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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.

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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