March 28, 2024

GreenCell Express Private Limited: Rating reaffirmed; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	317.29	317.29	[ICRA]A- (Negative) reaffirmed; Outlook revised to Negative from Stable
Long-term – Non-fund based – interchangeable limits^	(200.00)	(200.00)	[ICRA]A- (Negative) reaffirmed; Outlook revised to Negative from Stable
Total	**317.29**	**317.29**	

**Instrument details are provided in Annexure-I; ^Sub-limit of term loan facility*

Rationale

The revision in outlook to negative on GreenCell Express Private Limited's (GEPL) rating factors in the delay in deployment/ramp up of operations for the entity, which has consequently resulted in longer than initially envisaged stabilisation phase/ramp up of operational metrics. Accordingly, the project is expected to remain dependent on funding support from its parent entity over the near term to fund operational losses and debt servicing requirements; an inability of the project to improve operational metrics and operating cash flows could exert pressure on the credit profile and remains a monitorable.

The rating continues to factor in the company's strong parentage, as a wholly-owned subsidiary of GreenCell Mobility Private Limited (GMPL; rated [ICRA]A+(Stable)/A1). Over the years, GMPL has emerged as one of the key players in the electric bus (e-bus) segment in India, with presence across multiple Business-to-Government (B2G) projects and added presence in the Business-to-Consumer (B2C) segment through GEPL. GMPL is the flagship platform of Green Growth Equity Fund (GGEF), a sovereign-backed infrastructure fund to channelise investments into the electric vehicle (EV) segment in India.

While GEPL had plans to deploy 250 intercity e-buses (in Phase I) on high-traffic premium routes across India by September 2022 initially, the COD has been revised twice and now expected by March 2024, due to multiple factors. While supply chain issues due to Covid-19 and ambiguity around permits/clearances/taxation regarding documentation for e-buses plying on intercity routes caused the initial delays in deployment, a rework in strategy for deployment led to subsequent delays. The strategy rework included cost control measures by optimising the features on bus and revenue maximisation endeavours by reworking routes and timing the entry to market. Even as the delay in project execution has led to cost overruns, ICRA notes that the parent company has funded the entire cost overrun through equity infusion.

GEPL started deployment of its Phase 1 buses in August 2022, under the 'NueGo' brand and as of March 15, 2024, is operating ~235 buses across various routes. While occupancy levels have improved up on these routes over the past months, the revenues in the project continue to remain exposed to traffic risks. Accordingly, GEPL's ability to gain market share on the selected routes and compete with established players, remains critical to the viability of the project. While the initial routes identified for the project are high-traffic routes with favourable pricing, and running costs are expected to be significantly lower vis-à-vis conventional diesel buses, the company's ability to consistently achieve the targeted occupancies at favourable pricing would remain monitorable.

GEPL has also planned Phase II of the project, comprising 250, larger buses (13.5 meters), with ~36/53 seats (sleeper/non-sleeper) to ply on similar high traffic routes across the country. The company has infused the entire equity requirements for this phase and tied up with the Asian Development Bank (ADB) and the Asian Infrastructure Investment Bank (AIIB) for the debt funding. Over the near term, debt undertaken to fund the Phase II will lead to an increase in the overall leverage for the project; as such debt coverage metrics are expected to remain suppressed, and improve only over the medium term, as operational metrics ramp up.

Given that the project remains under execution phase, with further phases planned ahead, the project remains exposed to risks of time and cost overruns, as is the case with any under-execution project. Any further delay in deployment of buses or setup of necessary infrastructure from the envisaged timelines, or any unforeseen increase in costs has the potential to impact the project viability and, hence, would remain a key monitorable. Nevertheless, the company's contractual agreements with well-established suppliers, bus body manufacturers and franchisees for operating the fleet, is likely to mitigate execution and operational risks to an extent.

Despite the various execution and operational risks that the project is subject to, ICRA believes the presence of a strong sponsor (GMPL) is likely to ensure timely availability of funds to meet any funding requirements of the project till the operations stabilise after commercialisation. ICRA expects that the sponsor is likely to support further phases of the project as well through a shortfall undertaking, covering various aspects over the tenure of the debt, and a corporate guarantee for the initial stabilisation phase (as specified in the final sanction terms of the debt for the first phase). Even as the liquidity profile of GMPL provides comfort regarding its ability to provide support in a timely manner, ICRA will continue to monitor the ability of the entity to raise further funds required during the stabilisation phase of GEPL's operations as well as GMPL's commitment outlined towards new projects attained.

ICRA notes that with the limited track record of e-bus operations in India, the performance of buses in Indian conditions and for intercity operations would continue to be monitored. Additionally, geo-political developments remain a sensitivity, as any adverse developments related to imports from China, for future planned phases, can cause further cost escalations.

Key rating drivers and their description

Credit strengths

Strong parentage as wholly-owned subsidiary of GMPL, where sovereign funds are anchor investors – GMPL is the flagship platform of GGEF, a SEBI-registered Category II Alternate Investment Fund. GGEF's anchor investors are Govt. of India anchored National Investment and Infrastructure Fund (NIIF) (India's first sovereign wealth fund that was set up by the Government of India) and the Government of UK's Foreign, Commonwealth & Development Office (FCDO), who have together invested $340 million in the fund. Currently, the commitment from various investors in GGEF stands at $741 million, which was the target fund size at the outset. The presence of a strong sponsor and shortfall undertaking/corporate guarantee from the sponsor to the lender is likely to ensure timely availability of funds to meet any funding requirements; the parent entity has already funded the cost overrun in the project till date through incremental equity support.

Arrangements with experienced players in various domains to help reduce project execution/operational risks to a large extent – The entity had entered a fixed price sales agreement with Key Component Supplier (KCS) from China, as per which the KCS was responsible for supplying the key components of the e-buses. While adverse forex movement, enhanced scope of project and heightened logistics costs have led to a material increase in the cost of buses procured, the fixed price sales agreement insulated the entity to an extent to any further increase in project cost on account of adverse movement in raw material costs. The entity has entered into a similar agreement for procurement of batteries/chassis for the second phase as well. Simultaneously, the entity has entered an annual maintenance contract (AMC) with the bus body manufacturer to maintain the buses through the tenure of the project. Furthermore, agreements have also been entered with other service providers, including experienced existing bus operators (franchisees) in the identified inter-city routes. The agreement with well-established players in their respective domains is likely to mitigate execution and operational risks to an extent.

Project viability supported by favourable operating cost economics of e-buses, scope of growth in inter-city operations on high-traffic routes and Government focus on promoting e-mobility – Given the significantly lower running costs for e-buses vis-à-vis conventional diesel or CNG buses, the total cost of ownership of these buses is expected to be lower vis-à-vis diesel buses, despite higher acquisition costs and nil subsidy. This, coupled with the favourable prospects of inter-city bus operations, (generally command higher per km fares vis-à-vis intracity routes), the breakeven occupancies for these buses are likely to be favourable. Moreover, although this project is not eligible for the capital subsidy offered by the Government, the Government focus on supporting e-mobility through various means is likely to support development of the overall e-mobility ecosystem in the country, which augurs well for the timely ramp-up of the project.

Credit challenges

Project exposed to further time and cost overruns on account of execution risk for next phases – As with any under-execution project, the company remains exposed to risks of time and cost overruns. The COD date for first phase of operations has already been shifted by a total of 18 months that has resulted in cost overruns. However, the cost overrun has been entirely funded by incremental equity support from parent, thereby not leading to any material deterioration in projected debt coverage metrics. While Phase I of the project is largely operational, and unlikely to see any other cost overruns, further delays in deployment of buses/procurement of buses for Phase II and further phases, remain monitorable.

Ramp-up in operational metrics expected to be only gradual in nature; loss funding requirements expected to be funded through incremental equity support – After commencement of operations, given that the revenues for the project remain dependent on the traffic along the selected routes, its ability to gain market share on these routes and compete with established players remains a key uncertainty. While the routes identified for the project are all high-traffic ones, the company's ability to consistently achieve the targeted occupancies at favourable pricing would remain a monitorable. The ramp up in operational metrics is likely to only be gradual in nature, necessitating further infusion of funds by the parent entity to fund any operational losses. ICRA takes comfort from the strong financial flexibility of the parent entity and the established track record of support.

Limited track record of e-bus operations – The EV segment, including e-buses, is currently in the nascent stage in India, with operations picking up pace only over the last couple of years. While the KCS has an adequate track record of supplying e-buses globally, the performance of these buses in the Indian environment remains to be seen. So far, the buses operational under GEPL (and the batteries) have performed in line with expectations, not causing any reliability or availability issues. However, any underperformance in operation vis-à-vis expectations, especially that which impacts the availability, reliability and maintenance of buses, has the potential to impact the project viability, and hence, would be a key monitorable. Furthermore, the battery performance and bus efficiency would also remain critical for the project to generate optimal returns. Additionally, considering that the majority of e-bus operations in India and globally have been for the intra-city segment, the performance and reliance on inter-city routes would also be monitored.

Exposed to geo-political developments impacting supply of components – With the KCS being based out of China, and the periodic battery replacement to be sourced from the same every few years, the project remains exposed to risks of any adverse geo-political developments between India and China. The project has already faced considerable delays, with issues related to import of CKD's (on account of lockdowns/logistic issues), resulting in a material cost overrun. While chances of any disruption/ban of EV-related imports from China remain low, given the global dependence on China for EV components, this would continue to remain monitorable for further phases planned as well as the timely maintenance of deployed buses. Additionally, the management has also been exploring local manufacturing options for these buses, to reduce dependency on imports in the subsequent phases of the project.

Liquidity position: Adequate

As the project is under execution phase, the liquidity position remains supported by timely infusion of funds by GMPL and is expected to remain adequate. The liquidity of the promoter entity, GMPL, is aided by availability of adequate funds (~Rs. 220 crore of cash and liquid balances as of February 2024 coupled with availability of a further draw down of ~Rs. 58 crore from GGEF) for any further funding requirement of the company or other current projects.

Rating sensitivities

Positive factors – An upgrade over the near term is unlikely; the outlook could be revised to stable once the project is able to demonstrate a healthy ramp up in operational metrics and cash flows, thereby providing visibility of the company being self-sufficient in servicing its debt servicing requirements.

Negative factors – Negative pressure on the rating could arise if the project is unable to demonstrate an improvement in operational metrics, resulting in weaker-than-projected credit metrics. Any delays in timely support from the parent entity through the stabilisation phase, could also trigger a downward revision in rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Passenger Road Transport Entities
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 GEPL 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

GEPL is a wholly-owned subsidiary of GMPL, set up in 2021 to promote environment-friendly, intercity bus operations in India. It plans to deploy e-buses to benefit from the inherently lower running costs, as well as to provide a better ride quality and passenger experience. In the first phase of operations, the company is in the process of commencing operation of 250 e-buses on 25 high-traffic intercity routes across the country, with hubs at five prime locations of Delhi, Bhopal, Bangalore, Chennai and Hyderabad.

Over the medium to long term, it plans to scale up to 750 e-buses, making it the first of large ventures in the space. The company has entered contracts/agreements with various players for meeting its requirements related to bus procurement, charging infrastructure, depot setup, booking platform, sales and marketing activities, etc, and currently plans to commercialise 500 e-buses by March 2025.

Key financial indicators (audited)

GEPL Standalone	FY2022	FY2023	9MFY2024*
Operating income	0.0	34.5	88.9
PAT	(1.6)	(37.6)	(117.1)
OPBDIT/OI	-	-74%	-45%
PAT/OI	-	-109%	-132%
Total outside liabilities/Tangible net worth (times)	0.5	2.0	1.7
Total debt^/OPBDIT (times)	(605.9)	(13.5)	(6.4)
Total debt^^/OPBDIT (times)	0.0	(12.2)	(5.9)
Interest coverage (times)	(0.1)	(3.5)	(1.6)

*Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; * Provisional numbers; ^ Debt including leases; ^^ Debt excluding leases.*

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	Current Rating (FY2024)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Feb 29, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					March 28, 2024	Dec 27, 2022	Sep 28, 2021	-
1	**Term Loans**	Long-term	317.29	317.29	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
2	**Long Term – Non-fund based – Interchangeable limits***	Long-term	(200.00)	--	[ICRA]A- (Negative)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-

**Sub-limit of term loans*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Term Loan	Simple
Long Term – Non-fund based – Interchangeable limits*	Simple

**Sub-limit of term loans*

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 Loan**	FY2022	9.6%	FY2032	317.29	[ICRA]A-(Negative)
NA	**Long-term non-fund based – Interchangeable limits***	FY2022	NA	NA	(200.00)	[ICRA]A-(Negative)

*Source: Company *Sub-limit of term loans*

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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About ICRA Limited:

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