March 29, 2024

TML Smart City Mobility Solutions Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loan	347.00	[ICRA]AA (Stable); assigned
Short-term – Non-fund Based – BG	467.00	[ICRA]A1+; assigned
Long-term – Fund-based - Working Capital Limits – CC	15.00	[ICRA]AA (Stable); assigned
Long-term/Short-term – Unallocated Limits	421.00	[ICRA]AA (Stable)/[ICRA]A1+; assigned
Total	**1,250.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings assigned to TML Smart City Mobility Solutions Limited (TMLSC) take into consideration its strong parentage as a subsidiary of Tata Motors Limited (TML; rated [ICRA]AA (Stable)/[ICRA]A1+), one of India's leading automotive manufacturers, with very high operational, managerial and financial linkages between TML and TMLSC. The company was established by TML to operate electric buses (e-buses) of TML on a gross cost contract (GCC) basis. Presently, TMLSC has a contract to deploy 921 buses for Bangalore Metropolitan Transport Cooperation (BMTC) on a GCC basis, under the FAME II scheme of the Central Government. Also, TMLSC serves as the holding company for TML Smart City Mobility Solutions (J&K) Pvt. Ltd. (TML J&K), which is established to operate e-buses in Jammu and Kashmir in a largely similar model within the FAME II scheme. Going forward, TMLSC is likely to act as the holding company for all future e-bus projects of TML.

The ratings also factor in the execution and operational risks, given that the company began supplying e-buses to BMTC only from December 2023 onwards. Its 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 921 e-buses for BMTC and 200 buses in J&K. However, the company shall remain exposed to project risks associated with any future projects that it or its subsidiaries might undertake. The original equipment manufacturer (OEM) for the projects is TML.

In December 2022, TMLSC signed a concession agreement (CA) with BMTC for the procurement, supply, maintenance and operations of 921, 12-metre non-AC, e-buses on intra-city routes in Bangalore. The agreement spans 12 years from its scheduled commercial date of operations (SCOD), during which it would be paid a fixed rate (Rs. 41.01 per km) for a minimum assured distance of 70,000 km annually for each bus. Accordingly, the SPV is not exposed to the traffic risks on the routes operated, ensuring high revenue visibility, contingent around maintaining a contractually agreed bus availability of 95%. The project is entirely under the FAME II scheme of the Government of India, as per which it is eligible to receive a capital subsidy of Rs. 0.39 crore per bus from the Department of Heavy Industries (DHI) in three tranches. The subsidy reduces the capital costs and limits the dependence on external borrowings for the project, as around 35-40% of the total project cost would be funded by the subsidy, thus bolstering the entity's credit metrics. ICRA also takes comfort from the fact that the first tranche of subsidy (amounting to 20% of total cost) has already been received by the company.

The financial closure of the project has been completed in a timely manner, with an equity infusion of Rs. 45 crore and the company securing a term loan sanction of Rs. 347 crore to meet its debt requirements. Furthermore, ICRA believes the extension of the inter-corporate deposit (ICD) line from TML to the company, and TMLSC's healthy financial flexibility as part of the Tata Group are likely to ensure timely availability of funds to meet future funding requirements in case of any exigencies.

The ratings factor in the counterparty-related risks for the project, considering that intra-city operations are typically subsidised, and traffic receipts are unlikely to cover the payments from the authority. However, these risks are mitigated to a large extent by the escrow arrangement, where the escrow account is funded upfront with two months of estimated revenue and maintained throughout the project duration.

ICRA also notes that e-bus operations in the country are currently in nascent stages, 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 Group's deployment of over 1,200 e-buses upto December 2023 with a total of more than 2,000 e-buses operational including more than 1,000 under Convergence Energy Services Limited (CESL) tender. TML's e-bus fleet has cumulatively clocked more than 110 million kilometres. Additionally, the established experience of TML in the domestic automotive market provides further comfort.

While the projects have been commercialised, the stabilisation of operations post-commercialisation remains important. Moreover, the ability of the project to achieve the required operating metrics in a sustained manner remains crucial from a 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 developments 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 TMLSC is likely to procure, deploy and operate the buses in a timely manner with minimal delays, given its experience in deploying e-buses, and the financial flexibility associated with the backing of the strong promoter group. Nevertheless, ICRA would continue to monitor the project progress and the track record of operations on an ongoing basis.

Key rating drivers and their description

Credit strengths

Strong parentage and financial support from the Tata Group, along with associated financial flexibility - The company is a wholly owned subsidiary of TML, the market leader in the domestic commercial vehicle (CV) market, and among the top three players in the domestic passenger vehicle (PV) segment. With TML also being the OEM in both contracts, 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 undertaking by TML for TMLSC'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 between TML and TMLSC, with the latter's operations being managed by a seasoned team of veterans from TML, and an overlapping treasury team to manage the finances.

Group's track record of operations in the bus segment – The Tata Motors Group has deployed more than 1,200 e-buses upto December 2023 with a total of more than 2,000 e-buses operational including more than 1,000 under Convergence Energy Services Limited (CESL) tender. TML's e-bus fleet has cumulatively clocked more than 110 million km. The track record of successful operations of the e-buses on the routes deployed, along with the extensive experience of the Group in the domestic automotive market provides comfort.

High revenue visibility, with minimal traffic risk – In line with the GCC model and as defined in the CA, the authority (BMTC) would pay TMLSC 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 km (due to lower requirements by the authority) to be paid at 75% of the applicable rate brings in some element of variability.

Government focus and support for promoting e-mobility through capital subsidy augurs well for project viability – The Government of India is focussing significantly on promoting EVs as a cleaner and sustainable form of transportation, with a focus 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). Both the projects of TMLSC and TML J&K are eligible for subsidy, with the contract for 200 buses (for J&K) eligible for subsidy to the tune of Rs. 53 lakh/bus for 12 m AC buses and Rs. 45 lakh/bus for 9 m AC buses. The contract with BMTC for 921 buses is eligible for a subsidy of Rs. 39 lakh/bus. A significant subsidy component (35-40% of total project cost) has helped to significantly reduce the dependence on external debt funding for the project and, thereby, improved the project viability.

Credit challenges

Counterparty risks and risk of 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, and as such, the dependence on timely Government grants/support to authorities for funding the gap remains critical. While this elevates counterparty risks for such projects, an escrow mechanism, wherein the authority would be obligated to deposit two months of revenue payable as a payment reserve, reduces TMLSC's risks of an elongated receivable cycle. Additionally, comfort is drawn from the track record of the State Government of Karnataka in supporting BMTC through sizeable budgetary allocations.

Project remains exposed to some execution risks till full commercial operations begin – Although the company has commenced with the delivery of the initial lots of buses for the contract of 921 buses from December 2023, TMLSC remains exposed to some execution risks till the commencement of full commercial operations. Non-compliance with the terms of the CA, delay in bus deliveries or handover of bus depots, could delay the project execution, and remain monitorable. Nevertheless, in case of any interim cash flow mismatches 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.

Exposed to geopolitical developments impacting supply of components – The after-sales service (especially battery replacement) would remain dependent 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 offers comfort regarding de-risking 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 agreed specifications, 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 remain critical for the project to generate optimal returns. Nevertheless, TML's growing presence as a key player in the e-bus segment offers comfort.

Liquidity position: Adequate

TMLSC's liquidity position is adequate, augmented by financial support extended by the promoter entity and free cash flows generated from the operational buses. With adequate term loans tied up for funding the cost of the buses, expectations of timely equity infusion by TML, and an extended ICD line from TML to TMLSC, the liquidity position is likely to remain robust. Additionally, the liquidity position is further supplemented by the promoter entity's healthy liquidity profile.

Rating sensitivities

Positive factors – The ratings could be upgraded in case of an improvement in the credit profile of TML, the parent entity.

Negative factors – Pressure on the rating could arise if there is a considerable delay in project execution, which results in any material increase in external borrowings, impacting its viability. In addition, any significant delays in the receipt of subsidies or receivables would remain monitorable. Any material changes in TML's credit profile or support could also trigger a downward revision of the ratings.

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 TMLSC, should there be a need, given the strong operational, financial and managerial linkages between them.
Consolidation/Standalone	For its analysis, ICRA has estimated the consolidated financials of the company. As on December 31, 2023, TMLSC had one subsidiary, which is enlisted in Annexure II.

About the company

Incorporated on May 25, 2022, TMLSC a subsidiary of TML, was established to operate and maintain e-buses of TML on a GCC basis. Presently, TMLSC has a contract to deploy 921 buses for Bangalore Metropolitan Transport Cooperation (BMTC) on a GCC basis, under the FAME II scheme of the Central Government. Also, TMLSC serves as the holding company for TML Smart City Mobility Solutions (J&K) Pvt. Ltd. (TML J&K), which is established to operate e-buses in Jammu and Kashmir in a largely similar model within the FAME II scheme. Going forward, TMLSC is likely to act as the holding company for all future e-bus projects of TML. The contract secured from BMTC comprises of a Concession Agreement for 921, 12-metre e-buses dated December 2022, of which some buses were deployed over FY2024. The contract extends for a period of 12 years and will be operated under the GCC model and is eligible for capital subsidy from DHI under the FAME II scheme. The OEM for the contract is TML.

As of December 31, 2023, Tata Motors Limited owned 99.99% of the equity stakes in the company.

Key financial indicators (audited)

TMLSC – Standalone	FY2023
Operating income	-
PAT	-1.5
OPBDIT/OI	-
PAT/OI	-
Total outside liabilities/Tangible net worth (times)	22.1
Total debt/OPBDIT (times)	-
Interest coverage (times)	-1.0

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; operations had not started in FY2023

Source: Company financials and ICRA calculations

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
					Mar 29, 2024	-	-	-
1	**Term Loan**	Long term	347.00	41.46	**[ICRA]AA (Stable)**	-	-	-
2	**Non-Fund Based – BG**	Short term	467.00	--	**[ICRA]A1+**	-	-	-
3	**Working Capital Limits - CC**	Long term	15.00	--	**[ICRA]AA (Stable)**	-	-	-
4	**Unallocated Limits**	Long term and short term	421.00	--	**[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	February 2024	8.45%	March 2033	347.00	[ICRA]AA (Stable)
NA	Short Term – Non-Fund Based – BG	-	-	-	467.00	[ICRA]A1+
NA	Long Term – Fund Based - Working Capital Limits - CC	-	-	-	15.00	[ICRA]AA (Stable)
NA	Long Term/Short Term -Unallocated Limits	-	-	-	421.00	[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

Company Name	TMLSC's Ownership	Consolidation Approach
TML Smart City Mobility Solutions (J&K) Private Limited	99.99%	Full Consolidation

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About ICRA Limited:

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