

May 28, 2024

TML Smart City Mobility Solutions J&K Private Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loan	64.00	[ICRA]AA (Stable); assigned
Short-term – Non-fund Based – BG	94.00	[ICRA]A1+; assigned
Long-term – Fund-based - Working Capital Limits – CC	10.00	[ICRA]AA (Stable); assigned
Long-term/Short-term – Unallocated Limits	32.00	[ICRA]AA (Stable)/[ICRA]A1+; assigned
Total	200.00	

*Instrument details are provided in Annexure-I

Rationale

While assigning the ratings for TML Smart City Mobility Solutions J&K Private Limited (TML J&K), ICRA has taken a consolidated view of TML J&K and its parent company - TML Smart City Mobility Solutions Limited (TMLSC), given their common management and significant operational and financial linkages between them.

The ratings assigned take into consideration the strong parentage of TMLSC as a subsidiary of Tata Motors Limited (TML; rated [ICRA]AA (Stable)/[ICRA]A1+), one of India's leading automotive manufacturers. The company was established by TML to operate electric buses (e-buses) on a gross cost contract (GCC) basis. Presently, TMLSC has a contract to deploy 921 e-buses for Bangalore Metropolitan Transport Cooperation (BMTC) on a GCC basis, under the FAME II scheme of the Central Government. In addition, TML J&K, has a contract to operate 200 e-buses in Jammu and Kashmir for Jammu Smart City Limited (JSCL) and Srinagar Smart City Limited (SSCL) 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 and to JSCL and SSCL from January 2024 and November 2023 onwards, respectively. 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 921 e-buses for BMTC and 200 e-buses for JSCL and SSCL. 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 all three the projects is the ultimate parent company - 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. Similarly, in October 2022, TML J&K signed CAs with JSCL and SSCL for the procurement, supply, maintenance and operations of 75, 9-meter AC e-buses and 25, 12-meter AC e-buses each. The agreements span 12 years from its scheduled commercial date of operations (SCOD), during which, the companies would be paid a fixed rate (Bangalore – Rs. 41.01 per km, J&K – Rs. 55.62 per km for 12-meter buses and Rs. 47.79 per km for 9-meter e-buses) for a minimum assured distance of 70,000 km annually for each bus. Accordingly, the SPVs are 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 projects are entirely under the FAME II scheme of the Government of India, as per which they are eligible to receive capital subsidy 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 35-45% of the total project cost would be funded by the subsidy, thus strengthening the capitalisation and coverage metrics. ICRA also takes comfort from the fact that the first tranche of subsidy (amounting to 20% of total subsidy) has already been received for all three contracts.

The financial closure of the projects has been completed in a timely manner, with an equity infusion of ~Rs. 159 crore in TMLSC and ~Rs. 40 crore in TML J&K. Further, TMLSC and TML J&K have secured a term loan sanction of Rs. 347 crore and Rs. 64 crore, respectively, to partly fund their capex requirements. Furthermore, ICRA believes the extension of the inter-corporate deposit (ICD) line from TML, 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 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 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 Tata group's combined deployment of around 1,300 e-buses in Delhi, Bangalore and Jammu and Srinagar. Its e-bus fleet has cumulatively crossed more than 140 million kms with greater than 95% uptime till March 31, 2024. Additionally, the established experience of TML in the domestic automotive market provides further comfort.

The stabilisation of operations post deployment of the e-buses remains important for the projects. Moreover, achievement of the required operating metrics for the projects 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 the companies are 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 – TMLSC 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 all three 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, TMLSC and TML J&K, with the operations of the subsidiaries being 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. While 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 in the Bangalore project, 100% of the applicable rate shall be paid for the J&K project in case of unutilised km.

Availability of capital subsidy strengthens the capitalisation and coverage metrics – 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). The projects are eligible for subsidy of upto 35-50% of the total cost for the projects which has helped to significantly reduce the dependence on external debt funding for the project and, thereby, improves the capitalisation and coverage metrics of the company.

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 authorities 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 execution risks and geopolitical developments impacting supply of components – Although the company has commenced with the delivery of the initial lots of buses for all the three projects, 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. Further, 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, 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 of the e-buses 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, Delhi and J&K under the CESL tender and its fleet has covered a cumulative distance of more than 140 million kms with greater than 95% uptime till Q4 FY2024.

Liquidity position: Adequate

TMLSC's (consolidated with TML J&K) liquidity position is adequate, augmented by financial support extended by the promoter entity and cash flows generated from the operational buses. 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, the liquidity position is likely to remain comfortable.

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 – Negative pressure on the ratings could arise in case of any material changes in TML's credit profile or its support to the company. In addition, considerable delay in delivery/commissioning of the buses or material increase in external

borrowings impacting the project viability, and any significant delays in receipt of subsidy or receivables, shall 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 the company, should there be a need, given the strong operational, financial and managerial linkages between them.
Consolidation/Standalone	For arriving at its ratings, ICRA has estimated the consolidated financials of TMLSC. As on March 31, 2024, 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 (BMT) on a GCC basis, under the FAME II scheme of the Central Government. Also, TMLSC serves as the holding company for 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 BMT comprises of a Concession Agreement for 921, 12-metre e-buses dated December 2022 and the contract in Jammu and Kashmir comprises of two Concession Agreements for 75 9-meter AC buses and 25 12-meter AC buses each. Of these, some buses were deployed over FY2024. The contracts extend for a period of 12 years and are eligible for capital subsidy from DHI under the FAME II scheme. The OEM for the contract is TML.

As of March 31, 2024, TML owned 99.99% of the equity stakes in TMLSC and TMLSC owned 99.99% of the equity stakes in TML J&K.

Key financial indicators (audited)

TM LSC	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	Type	Current rating (FY2025)			Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
				May 28, 2024				
1	Term Loan	64.00	18.0	[ICRA]AA (Stable)	-	-	-	
2	Non-Fund Based – BG	94.00	--	[ICRA]A1+	-	-	-	
3	Working Capital Limits - CC	10.00	--	[ICRA]AA (Stable)	-	-	-	
4	Unallocated Limits	32.00	--	[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	March 2023	~8.5%	Sep 2031	64.00	[ICRA]AA (Stable)
NA	Short Term – Non-Fund Based – BG	-	-	-	94.00	[ICRA]A1+
NA	Long Term – Fund Based - Working Capital Limits - CC	-	-	-	10.00	[ICRA]AA (Stable)
NA	Long Term/Short Term -Unallocated Limits	-	-	-	32.00	[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

ANALYST CONTACTS

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

Kinjal Shah
+91 022 6114 3400
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

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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



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