July 11, 2024

VSK City Bus Operations Pvt Ltd: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term fund-based — Term loan	58.56	75.02	[ICRA]A-(Stable) reaffirmed/assigned
Long-term non-fund based — Letter of Comfort (LoC for subsidy)	78.75	78.75	[ICRA]A-(Stable) reaffirmed
Long-term fund-based — Interchangeable (sublimit of LoC)	(31.50)	0.00	-
Long-term non-fund based Bank Guarantee (backed by LoC)	(78.75)	(78.75)	[ICRA]A-(Stable) reaffirmed
Long-term/ Short-term – Working capital	-	10.00	[ICRA]A-(Stable)/[ICRA]A2+ assigned
Long-term/ Short-term – Unallocated	12.77	0.00	-
Total	**150.08**	**163.77**	

**Instrument details are provided in Annexure-I*

Rationale

The rating upgrade for VSK City Bus Operations Pvt. Ltd. (VCBOPL) factors in the steady operational track record of the project till date, following the successful delivery of the entire 175 buses to Meerut City Transport Services Ltd. (the Authority). The commercial operation date (COD) for the first lot of 100 buses was declared in August 2022, and the remaining 75 in March 2023. The operational performance of the buses till date has been largely in line with expectations and receivable realisation has also been relatively timely since the commencement of commercial operations.

The rating continues to factor in the favourable impact of lower project cost (aided by subsidy from the FAME[1] scheme), long tenure of project debt, and competitive interest rates (aided by a recent refinancing) that will keep the debt coverage metrics at comfortable levels over the debt repayment tenure (DSCR on external debt, after provisioning for Major Maintenance Reserve Account, or MMRA, to range at 1.6-1.9 times over the medium term; materially higher than lender prescribed covenants). 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 owing to its strong sponsors and the large capital commitments made by them. National Investment and Infrastructure Fund Limited (NIIF, India's first sovereign wealth fund) and the Government of the United Kingdom's (the UK's) Foreign, Commonwealth and Development Office (FCDO) are the anchor investors of the project, through the Green Growth Equity Fund (GGEF).

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 delivery delays of bus parts (mainly battery) due to Covid-related lockdowns in China, GMPL infused incremental funding (in the form of non-convertible debentures[2]) to accelerate procurement of the buses, pending release of the FAME subsidy, ensuring its commitment to the project. ICRA notes that the special purpose vehicle (SPV) availed a top-up loan of ~Rs. 25 crore during the recent refinancing,

[1] *Faster Adoption and Manufacturing of Hybrid and Electric Vehicles Scheme*

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

with the top-up up streamed to the parent entity, leading to a reduction in the interim funding extended by the parent. Despite the higher debt on the SPV's books, the credit metrics of the project remain healthy and provide comfort.

ICRA also notes that a material portion of eligible FAME subsidy (39% of the total) is yet to be received by the SPV, even as the management expects the balance subsidy receipt in the current fiscal. ICRA takes comfort from the fact that the subsidy gap till date has been funded by additional equity drawdown by the parent entity. Even as the parent continues to maintain a healthy liquidity position, thereby alleviating concerns of a further delay in subsidy receipt to an extent, ICRA will monitor the timelines associated with the same.

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 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-sales 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 the unavailability of buses.

ICRA notes that the capex requirements for the SPV will be largely limited to the major maintenance expenditure (expected in FY2027–FY2028). The company is provisioning for the MMRA on a monthly basis, and ICRA expects cash accruals to be 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 maintaining three months of revenue payable as a payment reserve. ICRA notes that the deposits to this escrow have been lumpy and have not been maintained on a regular basis. Despite the same, ICRA draws comfort from the undrawn working capital facilities (never utilised despite two years of operations), which could be utilised in case of material delays. 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, offer 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 with funding, in case of any fund gaps.

Key rating drivers and their description

Credit strengths

Strong parentage as majority economic interest lies with GMPL, where sovereign funds are anchor investors – GMPL (49% equity stake and 74% economic interest in VCBOPL) is the flagship platform of GGEF, a SEBI registered Category II Alternate Investment Fund (AIF). GGEF's anchor investors are the Government of India anchored, NIIF (India's first sovereign wealth fund) and the FCDO (formerly the Department for International Development), Government of the UK. Currently, the commitment from various investors in GGEF stands at $741 million, which was the target fund size at the outset. 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 1,600 electric 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 both the promoter entities to the lender are likely to ensure timely availability of funds to meet any funding requirements.

High revenue visibility based on per kilometre fixed fee for an assured distance, subject to bus availability, even as receipts from ticket collections for intra-city 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 along 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 aid in a stable revenue profile. However, the clause related to unutilised kilometres to be paid at 75% of the applicable rate brings in some element of variability. Also, intra-city bus operations, in general, are subsidised and can recover only 30-50% of the revenue payable (to the SPV) from ticket collections. As such, the dependence on timely Government grants/support to authorities for funding the gap remains critical.

Government focus and support for promoting e-mobility augurs well for 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 sector. 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 (~57% of bus cost). The subsidy was to be released in three tranches within six months of commencement of operations (~61% 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 – 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 is expected to deposit and maintain three months of revenue payable upfront as a payment reserve, reduces the risk 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 corpus created by the State Government of Uttar Pradesh by implementing 2% cess on property transactions, of which 25% is earmarked for urban transportation, 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 operations of OEM in e-bus segment – The OEM, PEMPSL, has so far supplied about 1,600 e-buses over the past 3-4 years in India. Given its 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 vis-à-vis the agreed specifications, especially that which impacts the availability and reliability of the buses, has the 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 specifications as per the concessionaire agreement since operations began. ICRA continues to take comfort from the presence of a strong technical partner, Foton, a leading, global e-bus manufacturer with an established track record of operations. Moreover, back-to-back arrangements with the OEM to pass on any penalties that could arise from the unavailability of buses mitigates the risks to some extent.

Liquidity position: Adequate

VCBOPL's liquidity position is expected to remain adequate, supported by expectation of operational surplus (post earmarking of funds for MMRA in the SPV), unencumbered cash and bank balances (~Rs. 26 crore as on June 2024), subsidy receivable, and undrawn working capital lines. The SPV has debt repayment obligations (towards external debt) of ~Rs. 6.8 crore in FY2025.

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

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 sustained track record of operations and timely receipt of payments from the counterparty. In addition, timely receipt of the pending FAME subsidy will also remain key. An improvement in the credit profile of the parent entity could also lead to a review of the rating.

Negative factors – Negative pressure on rating could arise in case of 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 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](#)
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	Standalone

About the company

VSK City Bus Operations Private Limited is an SPV set up to procure, operate and maintain 175 nine-meter-long, fully built, AC e-buses for intra-city public transport operations in Ghaziabad (50), Meerut (50), Bareilly (25), Moradabad (25), and Shahjahanpur (25) in Uttar Pradesh.

The SPV was established by a consortium headed by PMI Electro Mobility Solutions Private Limited, which was the successful bidder for these projects. Subsequently, Greencell Mobility Private Limited was roped in as a strategic investor, which currently holds ~49% stake, while the remaining is held by the PEMPSL consortium. As per the terms of the concession agreement and with Authority approval, GCM plans to increase its stake in the SPVs to 74%, three years after the COD. The SPVs are entitled to operate the buses for a period of 10 years on GCC basis and are eligible for a subsidy of Rs. 45 lakh per bus from the Government of India under the FAME II scheme.

Key financial indicators

VCBOPL	FY2023	FY2024*
Operating income	46.7	80.0
PAT	4.4	16.0
OPBDIT/OI	45.8%	51.1%
PAT/OI	9.4%	20.0%
Total outside liabilities/Tangible net worth (times)	6.9	3.8
Total debt/OPBDIT (times)**	5.4	2.3
External debt/OPBDIT (times)	3.4	1.2
Interest coverage (times)**	2.1	2.5
OPBDIT/Interest (excluding interest on holding company debt) (times)	NA	6.1

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore; **Total debt includes funding provided the parent entity in the form of non-convertible debentures*

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 (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Jul 11, 2024	Apr 26, 2023	--	Jan 17, 2022
1	Term loans	Long term	75.02	[ICRA]A- (Stable)	[ICRA]A- (Stable)	--	[ICRA]A- (Stable)
2	Letter of Comfort	Long term	78.75	[ICRA]A- (Stable)	[ICRA]A- (Stable)	--	[ICRA]A-(Stable)
3	Interchangeable	Long term	--	--	[ICRA]A- (Stable)	--	[ICRA]A-(Stable)
4	Bank Guarantee (backed by LoC)	Long term	(78.75)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	--	[ICRA]A-(Stable)
5	Bank Guarantee	Long term	--	--	--	--	[ICRA]A-(Stable)
6	Unallocated Limits	Long term / Short term	--	--	[ICRA]A-(Stable)/ [ICRA]A2+	--	[ICRA]A-(Stable)/ [ICRA]A2+
7	Working capital	Long term / Short term	10.00	[ICRA]A-(Stable)/ [ICRA]A2+	--	--	--

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based — Term Loans	Simple
Long-term Non-fund Based — Letter of Comfort (LoC for Subsidy)	Very Simple
Long-term Non-fund Based Bank Guarantee (backed by LoC)	Very Simple
Long-term/ Short-term - Working Capital	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	**Term Loans**	FY2025	NA	FY2031	75.02	[ICRA]A- (Stable)
NA	**Letter of Comfort (LoC for Subsidy)**	NA	NA	NA	78.75	[ICRA]A- (Stable)
NA	**Bank Guarantee**	NA	NA	NA	(78.75)	[ICRA]A- (Stable)
NA	**Working Capital**	NA	NA	NA	10.00	[ICRA]A- (Stable)/[ICRA]A2+

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

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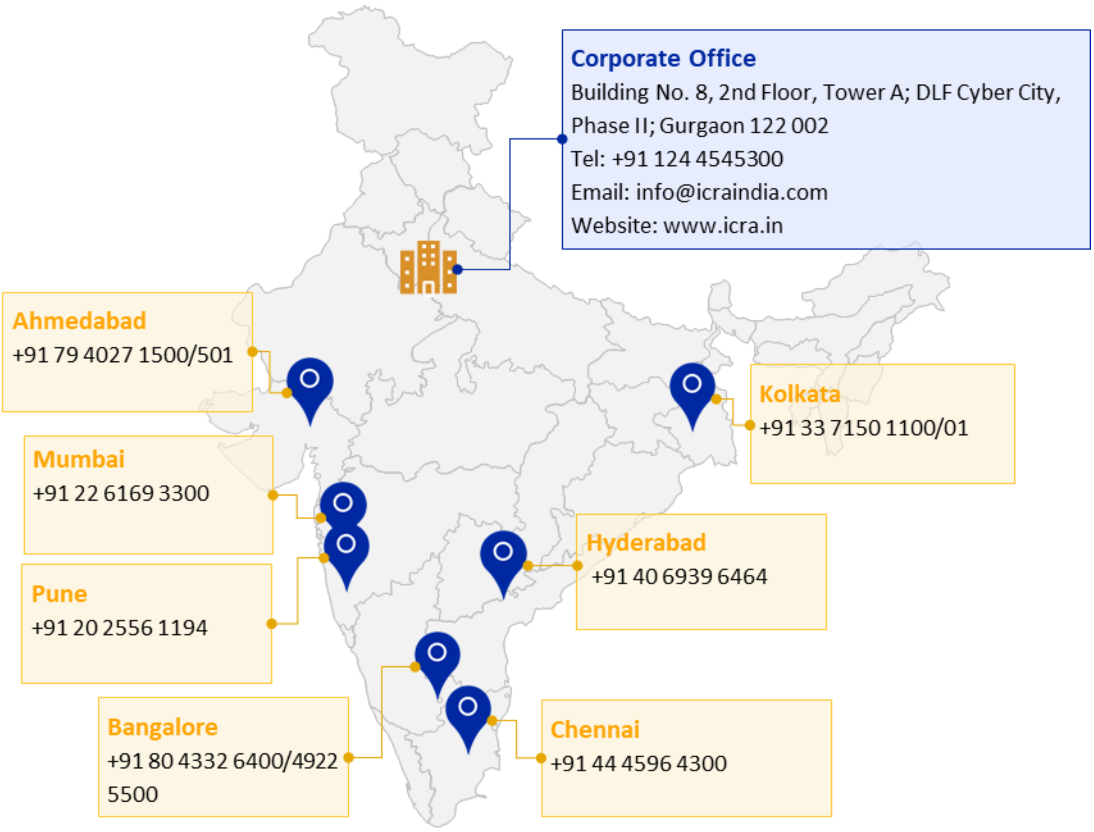

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