December 17, 2024

Vaasudevo City Bus Operations Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term term loan	86.20	59.57	[ICRA]A(Stable); reaffirmed
Long-Term fund based limits	11.20	11.20	[ICRA]A(Stable); reaffirmed
Long-term non-fund based facilities	80.85	80.85	[ICRA]A(Stable); reaffirmed
Total	**178.25**	**151.62**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for Vaasudevo City Bus Operations Pvt Ltd (VCBOPL) factors in the steady operational track record of the project till date, following successful delivery of the entire 175 buses to Lucknow City Transport Services Ltd. (the authority). The commercial operation date (COD) for the first lot of 100 buses was declared in January 2022, and the remaining 75 in August 2022. 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. ICRA notes that the performance of the SPV has been impacted to an extent in H1 FY2025, with the bus availability remaining affected on account of maintenance undertaken for several buses (replacement of battery packs undertaken). The downtime for buses and lower running led to a provision for levy of a higher penalty by the authority and constrained the margins for the SPV in the current fiscal till date. Notwithstanding the same, the coverage metrics for the SPV are expected to remain comfortable.

The rating continues to factor in the favourable impact of lower project cost (aided by subsidy from the FAME[1] II scheme), long tenure of project debt and competitive interest rates, which 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 remain in the range of 1.4-1.6 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 owing to its strong sponsors and 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) 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 are likely to ensure timely availability of funds to meet any incidental funding requirements for the project. Even during 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) to accelerate procurement of buses, pending release of the FAME subsidy, ensuring its commitment to the project.

ICRA notes that a portion of eligible FAME subsidy (~24% of the total) is yet to be received by the SPV, even as the management expects the balance subsidy receipt over the next few quarters. 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

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

liquidity position, 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 of 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 173 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 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 largely mitigated as annual maintenance costs and operator costs are largely stable, given the fixed-price contracts with the OEM and the operator, as well as the 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 remain largely limited to the major maintenance expenditure (expected in FY2027-28). The company is provisioning for MMRA on an annual basis, and ICRA expects the company to set aside cash accruals to adequately fund this expenditure in due time. For ensuring seamless operations and meeting the desired availability guidelines under the concession agreement, the management is in the process of purchasing another four spare buses in VCBOPL and two buses in TCBOPL The same has lead to an additional capex outgo of Rs. 4-5 crore in the current fiscal.

The project remains susceptible to counterparty risks, given the nature of intra-city operations, wherein 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 deposits to this escrow account have been irregular and have not been 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 material delays. The authority has also provided a revolving LC equivalent to another three months of revenue payables. Additionally, the presence of the Uttar Pradesh Government (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 about 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 long-term agreement with the authority. GMPL, one of the parent entities, is expected to support the project, in case of any funding gap.

Key rating drivers and their description

Credit strengths

Strong parentage as the majority economic interest lies with GMPL, where sovereign funds are anchor investors – GMPL (a 49% equity stake and a 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 and the FCDO (formerly the Department for International Development), Government of the UK. 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 2,000 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 requirement.

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[2] 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 maintaining a stable revenue profile. However, the clause related to unutilised kilometres, which 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 the SPV) from their ticket collections. As such, 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 a 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 was 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, 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 the 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 Uttar Pradesh Government by implementing a 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 OEM's operations in e-bus segment – The OEM, PEMPSL, has so far supplied about 2,000 e-buses over the past 4-5 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 which impacts the availability and reliability of the buses, has the potential to affect 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 the operations began, even as there is some underperformance in the fiscal till date on account of the maintenance undertaken for several buses. 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, mitigate the risks to some extent.

Liquidity position: Adequate

VCBOPL's liquidity position is **adequate**, supported by operational surplus and undrawn working capital lines. The SPV has debt repayment obligations (towards external debt) of Rs. 5.7 crore in H2 FY2025. Moreover, backing of a strong promoter renders the SPV with ample financial flexibility to raise/refinance debt from financial institutions.

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[2] *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.*

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 – Pressure on the rating could arise if there are any major delays in receipt of the balance subsidy or build-up in receivables, increasing reliance on external borrowings and, thereby, weakening the 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 the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	The rating 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

Vaasudevo City Bus Operations Private Limited is an SPV, which has been 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 concession agreement and with the authority's 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 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.

Key financial indicators (Audited)

	FY2023	FY2024
Operating income	70.7	78.0
PAT	6.2	12.0
OPBDIT/OI	51.7%	56.5%
PAT/OI	8.8%	15.4%
Total outside liabilities/Tangible net worth (times)	8.0	4.2
Total debt/OPBDIT (times)	3.8	2.3
Interest coverage (times)	2.0	2.8

Source: Company's annual reports, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

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	Type	Current (FY2025)			Chronology of rating history for the past 3 years							
		Amount Rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022			
			Date	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Term loans	Long-term	59.57	**Dec 17, 2024**	**[ICRA]A (Stable)**	Sep 29, 2023	[ICRA]A (Stable)	Nov 30, 2022	[ICRA]A- (Stable)	Oct 27, 2021	[ICRA]A- (Stable)	Jun 08, 2021	[ICRA]A- (Stable)
Fund based limits	Long term	11.20	**Dec 17, 2024**	**[ICRA]A (Stable)**	Sep 29, 2023	[ICRA]A (Stable)	Nov 30, 2022	[ICRA]A- (Stable)	-	-	-	-
Non fund based limits	Long term	80.85	**Dec 17, 2024**	**[ICRA]A (Stable)**	Sep 29, 2023	[ICRA]A (Stable)	Nov 30, 2022	[ICRA]A- (Stable)	-	-	-	-
Letter of credit* (Interchangeable)	Long term	-	-	-	-	-	-	-	Oct 27, 2021	[ICRA]A- (Stable)	Jun 08, 2021	[ICRA]A- (Stable)
Bank guarantee (Interchangeable)**	Long-term	-	-	-	-	-	-	-	Oct 27, 2021	[ICRA]A- (Stable)	-	-

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

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Fund based – Term loans	Simple
Long term – fund based limits	Simple
Long term – Non fund based limits	Very 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**	FY2023	NA	FY2030	59.57	[ICRA]A(Stable)
NA	**Fund based limits**	NA	NA	NA	11.20	[ICRA]A(Stable)
NA	**Non fund based limits**	NA	NA	NA	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 4545328
shamsherd@icraindia.com

Srikumar Krishnamurthy
+91 44 45964318
ksrikumar@icraindia.com

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

Akshay Dangi
+91 124 4545 396
akshay.dangi@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

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

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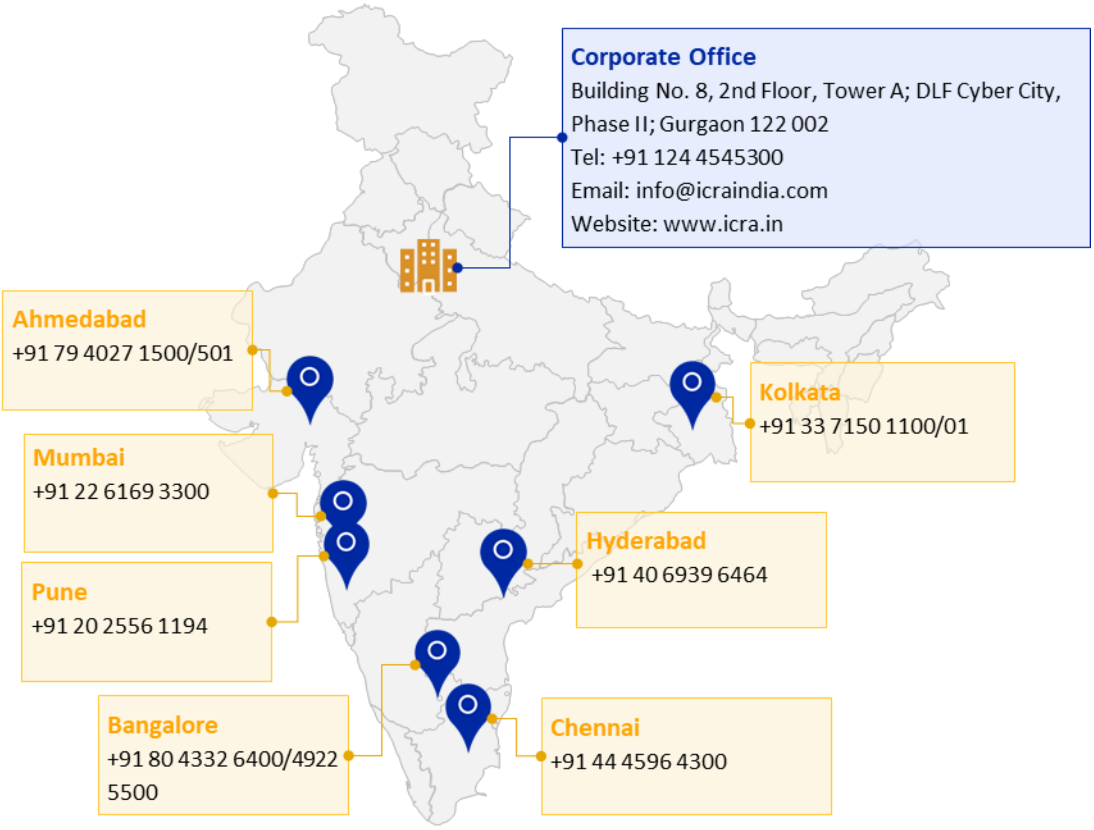

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