January 17, 2022

Shyama Shyam P1 City Bus Operations Pvt Ltd: [ICRA]A-(Stable)/[ICRA]A2+ assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. Crore)	Rating Action
Long-term Term Loans	57.79	[ICRA]A- (Stable); assigned
Long-term Letter of Comfort (LoC for Subsidy)	78.75	[ICRA]A- (Stable); assigned
Long-term Fund-based interchangeable^	(31.50)	[ICRA]A- (Stable); assigned
Long-term Bank Guarantee (backed by LoC)^	(78.75)	[ICRA]A- (Stable); assigned
Long-term Bank Guarantee	1.92	[ICRA]A- (Stable); assigned
Long-term/ Short-term Unallocated Limits	13.08	[ICRA]A- (Stable)/ [ICRA] A2+; assigned
Total	**151.54**	

**Instrument details are provided in Annexure-1; ^sublimit of LOC limit, ^^Sanctioned against letter of comfort from project lender*

Rationale

The rating assigned to Shyama Shyam P1 City Bus Operations Pvt Ltd (SSCBOPL) takes into consideration its strong parentage, with majority economic interest held by GreenCell Mobility Private Limited (GCM, rated [ICRA]A+(Stable)/[ICRA]A1), and limited execution and operational risks, since the project is in advanced stages of execution with various agreements being in place. Even though the agreement with the authority essentially translates into an annuity model of revenues for the Special Purpose Vehicle (SPV, viz., SSCBOPL), it remains exposed to counterparty risks, because of the expected dependence on Government authorities for funding revenue shortfalls and subsidy receipts, and the likelihood of time overruns, given the pandemic induced disruptions. ICRA also notes that the dependence on the Original Equipment Manufacturer (OEM), viz., PMI Electro Mobility Solutions Private Limited (PEMPSL) is high for successful execution of the project. However, comfort is drawn from the presence of an established key component supplier (KCS), Beiqi Foton Motors (Foton), China, and the multi-partite agreements with the OEM and KCS for project execution and performance.

SSCBOPL has been setup as an SPV to procure, operate and maintain 175 e-buses[1] on intra-city routes in three cities (Agra, Aligarh, Mathura–Vrindavan) of Uttar Pradesh for 10 years under the Gross Cost Contract (GCC) model of the FAME II Scheme. While the bid for operating these 175 buses was initially won by a consortium led by PEMPSL, GCM subsequently acquired 49% voting rights and 74% economic interest in the SPV. As per the terms of the Concession Agreement (CA)[2] and with authority approval, GCM plans to increase its stake in the SPV to 74% three years post the commencement of operations. ICRA draws comfort from the fact that GCM is involved in strategic decisions as well as the day-to-day operations of the company, as per the terms of the shareholding agreement with PEMPSL. Overall, the presence of a strong sponsor and a shortfall undertaking from the promoters to the lender is a credit positive and likely to ensure timely availability of funds to meet any funding requirements for the project. ICRA also notes that the financial closure for the project has been achieved and 100% equity has also been infused by the promoters.

Despite the limited track record of e-bus operations in India, especially that of the OEM, PEMPSL (setup in 2017), comfort is drawn from the fact that it has a technical tie up with an established player, Foton, for sourcing technology and critical

[1] *9-metre-long, fully built air-conditioned buses*

[2] *As per the CA, the initial bidder is required to stay invested for at least 51% during the first three years from COD and can reduce it to up to 26% thereafter.*

components. However, geo-political developments and pandemic related supply chain issues remain a sensitivity for the project viability. Furthermore, any adverse developments relating to import of EV components can impact their supply and impair operations.

As per the sales and after-sales agreement between SSCBOPL and PEMPSL, the prices of the buses are fixed, which significantly reduces the risk of cost overruns for the project, as buses constitute about 90% of the project cost. ICRA also notes that a significant proportion of the bus cost (~60%) would be funded through capital subsidy from the Department of Heavy Industries (DHI), improving the project viability. However, given that the project is in the execution phase, it remains subject to timely receipt of subsidy and statutory approvals (including timely handover/ electricity connection etc at bus-depots) and other inherent project execution risks, especially in the wake of the pandemic induced disruptions. Commercialisation of the project within the scheduled timelines, coupled with stabilisation of operations post commercialisation, hence, remains a key monitorable.

The company's business model is characterised by high revenue visibility and minimal traffic risk, given the nature of the contract, wherein the company will be paid a fixed rate for a minimum assured distance of 180 km/bus/day, subject to the assured bus availability. Additionally, the company has fixed major operational costs such as annual maintenance costs (AMC) and operator costs through fixed-price contracts with the OEM and operator and has also entered back-to-back arrangements for passing on any incremental costs or penalties in case of bus non-availability or delays in bus delivery. Accordingly, operational risks are mitigated to a large extent.

The project remains susceptible to counterparty risks, given the nature of intra-city operations, wherein the ticket collections are usually much lower than the revenue payable to the operator. However, the risks are mitigated to some extent by the escrow mechanism, wherein the authority would be obligated to deposit the revenues from ticket collections while also maintaining three months of revenue payable as a payment reserve. The authority will also be providing a revolving LC equivalent to another three-months of revenue payables. 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, offers comfort regarding the authority's ability and commitment to honour its obligations. In terms of the subsidy receipt and timing, comfort is drawn from the fact that the first tranche of subsidy was received from DHI in a timely manner by the authority.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company is likely to procure and deploy the buses in a timely manner with minimal delays, given the financial flexibility enjoyed by the entity and the project milestones achieved till date. Nevertheless, ICRA would continue to monitor the project progress, and the track record of operations, once commercialised, and take rating actions appropriately.

Key rating drivers and their description

Credit strengths

Strong parentage as majority economic interest lies with GCM, where sovereign funds are anchor investors – GCM (holds 49% equity stake and 74% economic interest in SSCBOPL) 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 National Investment and Infrastructure Fund (NIIF) (India's first sovereign wealth fund) and the Government of United Kingdom's Department for International Development (DFID). Currently, the commitment from various investors in GGEF stands at $547 million, out of a target fund size of $700 million.

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 300 e-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 and aid a timely commercialisation of the project; financial closure for the project has already been achieved with 100% equity brought upfront and debt tied up.

High revenue visibility as CA provides fixed fee on per km basis for an assured distance subject to the 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 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 (total of six spare buses) is likely to aid the company in ensuring the required fleet availability and aid in a stable revenue profile. However, the clause relating to unutilised km being paid at 75% of the applicable fixed rate brings in some element of variability. Also, intra-city bus operations, in general, are subsidised and can recover only 30-40% of the revenue payable (to SPV) from their ticket collections. As such, the dependence on timely government grants/support to authorities for funding the gap remains critical.

Back-to-back arrangements with OEM for bus procurement, maintenance and operations mitigate risks related to project execution and cost overruns – The SPVs have entered into a sales and after-sales agreement with PMEPSL (OEM) (which in turn has a back-to-back agreement with the Chinese KCS, Foton , as per which the OEM and KCS would be supplying the buses as per the technical specifications, maintaining the buses (through an AMC contract) and also operating them throughout the tenure of the contract. The prototype for the buses to be supplied has already been approved. The presence of a fixed price sales and after sales service contract mitigates any time and cost overrun risks. Furthermore, any penalties arising due to non-compliance with terms of the Bus Operator Agreement would be recovered from the OEM completely, which further mitigates risks and reduces cash flow variability.

Government focus and support for promoting e-mobility through capital subsidy 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 to 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 part of the FAME II scheme, wherein the OEM would be eligible for a subsidy of Rs. 45 lakh per bus (~60% of bus cost). The subsidy will be released in three tranches within six months of commencement of operations and would significantly reduce the capital cost associated with the project, thereby improving project viability.

Credit challenges

Counterparty risks owing to likely receivable build-up; mitigated to an extent by planned 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 would be depositing three months of revenue payable upfront as a payment reserve, reduces risks of receivables to an extent. Additionally, the presence of a corpus created by the Government of Uttar Pradesh, through implementation of 2% cess on property transactions, 25% of which is earmarked for urban transportation requirements[3], 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.

[3] *As per the management, the cess collections have amounted to Rs. 1,600 crore annually, of which Rs. 400 crore has been earmarked for urban transportation, and only Rs. 80-90 crore is currently being utilised for the same.*

Exposed to geo-political developments impacting supply of components – The supply and after sales service of buses would remain dependent on amicable relations between India and China, with any disruption or restriction on EV-related imports likely to impact the project operations/viability. While chances of any such adverse development remains low, given that globally China controls the lithium reserve supply, it would continue to remain a monitorable. Nevertheless, even in case of such adverse development, the company expects the OEM to be able to supply components from manufacturing facilities in other locations.

Limited track record of operations of OEM in e-bus segment – The OEM, PEMPSL, has so far supplied about 300 e-buses over the past four years in India. Given the limited track record of e-bus operations, OEM's ability to supply and maintain these buses as per the specifications of the Bus Operator Agreement remains critical. Any underperformance in operation vis-à-vis agreed specifications, especially that which impacts the availability and reliability of buses, has potential to impact the project viability, and hence, would be a key monitorable. Nevertheless, ICRA takes comfort from the presence of a strong technical partner, Foton, which has supplied about 15,000 e-buses globally (Source: company website) and has an established track record of operations. Moreover, back-to-back arrangement with the OEM to pass on any penalties that could arise due to non-availability of buses mitigates risks to some extent.

Project exposed to risk of time overruns given dependence on statutory approvals and continuing impact of the pandemic – Given the involvement of government agencies, there could possibly be delays in receipt of statutory approvals for the project execution. Depot license, electric feeder line, consent to establish/operate would be some of the statutory documentation taking time to approve and implement. Additionally, the resurgence in pandemic and associated restrictions could delay the project from the timelines envisaged. Although the sales agreement executed with the OEM covers for recovery of any penalties due to delay in bus deliveries from the OEM, thereby protecting the SPV to an extent, any major delays in project execution would remain a monitorable. Additionally, the timing of subsidy receipt remains a key unknown, especially considering the involvement of multiple agencies. Any inordinate delays in receipt of the subsidy (46% of project cost) could increase the dependence on external borrowings and leveraging of the project.

Liquidity position: Adequate

As the project is in its execution phase, the liquidity position will be supported by FAME subsidy receivable from DHI, and support from the promoter entity. ICRA notes that 20% of the subsidy has been received by the authority, which will be released to the SPV shortly. Additionally, 100% of the equity has been infused by both the promoters upfront. The liquidity of one of the promoter entities, GCM, is expected to remain strong, with availability of adequate funds for any unforeseen funding requirement of the SPV. The presence of strong anchor investors in GCM's parent entity, GGEF, is expected to aid timely receipt of any additional funding requirements.

Rating sensitivities

Positive factors – The rating could be upgraded once the project is able to demonstrate an adequate track record of operations and credit metrics.

Negative factors – Negative pressure on the rating could arise if the project progress is delayed considerably resulting in significant time and cost overruns. In addition, any delays in receipt of subsidy or higher-than-expected build up in receivables on commercialisation of the project, increasing reliance on external borrowings and, thereby, weakening credit metrics would remain a rating sensitivity. Any material changes in 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 Passenger Road Transport Entities Rating approach - Implicit Support from Parent or Group
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 SSCBOPL 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

Shyama Shyam P1 City Bus Operations Pvt Ltd (SSCBOPL) is an SPV set up to procure, operate and maintain 175, nine-metre-long, fully built, AC electric buses for intra-city public transportation in Agra, Aligarh and Mathura-Vrindavan in Uttar Pradesh. The SPV was set up by a consortium headed by PMI Electro Mobility Solutions Private Limited (PEMPSL), the successful bidder for the projects. Subsequently, Greencell Mobility Private Limited (GCM) was roped in as a strategic investor, which holds 49% stake, while the remaining is held by the PEMPSL consortium. As per the terms of the CA and with authority approval, GCM plans to increase its stake in the SPV to 74% after three years from the COD. The SPV would be operating the buses for a period of 10 years on 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): Not applicable[4]

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

[4] *As the company is yet to commence operations, the audited financials for FY2021 are not meaningful.*

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Dec 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					January 17, 2022	-	-	-
1	Term Loans	Long-term	57.79	57.79	[ICRA]A-(Stable)	-	-	-
2	Letter of Comfort	Long-term	78.75	15.75	[ICRA]A-(Stable)	-	-	-
3	Fund-based interchangeable*	Long-term	(31.50)	(31.50)	[ICRA]A-(Stable)	-	-	-
4	Bank Guarantee (backed by LoC)**	Long-term	(78.75)	-	[ICRA]A-(Stable)	-	-	-
5	Bank Guarantee	Long-term	1.92	1.92	[ICRA]A-(Stable)	-	-	-
6	Unallocated Limits	Long-term/ Short-term	13.08	-	[ICRA]A-(Stable)/[ICRA] A2+	-	-	-

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

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Letter of Comfort	Very Simple
Fund-based interchangeable	Simple
Bank Guarantee (backed by LoC)	Very Simple
Bank Guarantee	Very Simple
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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Term Loans	Aug 4, 2021	-	FY2030	57.79	[ICRA]A-(Stable)
NA	Letter of Comfort	Aug 4, 2021	-	FY2027	78.75	[ICRA]A-(Stable)
NA	Fund-based interchangeable*	Aug 4, 2021	-	-	(31.50)	[ICRA]A-(Stable)
NA	Bank Guarantee (backed by LoC)**	Nov 1, 2021	-	FY2027	(78.75)	[ICRA]A-(Stable)
NA	Bank Guarantee	Nov 1, 2021	-	-	1.92	[ICRA]A-(Stable)
NA	Unallocated Limits	-	-	-	13.08	[ICRA]A-(Stable)/[ICRA]A2+

Source: Company **Sub-limit of LOC* *** Sanctioned against LOC from project lender*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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