February 28, 2023

VT Emobility Private Limited: Rating upgraded to [ICRA]A- (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term Loans	69.86	69.86	[ICRA]A- (Stable); Upgraded from [ICRA]BBB+ (Stable)
Non Fund-Based Facilities	32.40	32.40	[ICRA]A- (Stable); Upgraded from [ICRA]BBB+ (Stable)
Unallocated Limits	0.04	-	-
Total	**102.30**	**102.26**	

**Instrument details are provided in Annexure-I*

Rationale

The upgrade in the rating of VT Emobility Private Limited (VTE or the special purpose vehicle, or SPV) takes into consideration an adequate track record of operations for the SPV, with all the 90 buses for the project operational since August 2021. The operational metrics of the SPV (bus availability/electricity consumption) have remained in line with expectations and the payments from the authority, Ahmedabad Janmarg Limited (AJL or the authority), have been received in a timely manner, which consequently provides greater comfort regarding future cash flows for the SPV. ICRA notes that the SPV has completed the project capex and received the entire capital subsidy of Rs. 40.5 crore from the FAME II scheme of the Government of India (GoI), thereby eliminating all execution related risks for the project.

The rating takes into consideration the healthy financial support available to VTE, with JBM Auto Limited (JBMA) being both a majority shareholder in the SPV and the Original Equipment Manufacturer (OEM) for the project. Despite the limited track record of e-bus operations in the country, and JBMA being a relatively new entrant in the domestic bus manufacturing space (entered in FY2017), comfort is drawn from the established experience of the JBM Group in the domestic automotive market. The financial closure of the project was completed in a timely manner with 100% equity brought upfront, and debt and subsidy disbursed to the SPV in a timely manner as well. Furthermore, ICRA believes the shortfall undertaking from JBMA to the lender and the healthy financial flexibility offered by being part of the $2.2-billion JBM Group are likely to ensure timely availability of funds to meet future funding requirements as well.

As per the Concessionaire Agreement (CA) between VTE and AJL, the SPV will procure, supply, maintain and operate 90[1] electric buses (e-buses) on intra-city routes for AJL for 10 years from its full commencement of operations (FCOD), for which it would be paid a fixed rate (Rs. 54.9 per km[2]) for a minimum assured distance of 70,000 km annually for each bus. Accordingly, the SPV does not bear the traffic risks on the routes operated, and revenue visibility is high, subject to it adhering to the contractually agreed bus availability of 94%. The project is under the FAME II scheme of the GoI, as per which it has received a capital subsidy of Rs. 45 lakh per bus from the Department of Heavy Industries (DHI) in three tranches. This reduced the capital costs and dependence on external borrowings, as about 30% of the total project cost was funded by subsidy, which in turn has supported the credit metrics for the entity.

The counterparty-related risks in the project are mitigated to a large extent by the escrow arrangement in place, wherein the escrow account is to be funded with two months of estimated revenue payable upfront and maintained throughout; ICRA

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

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

notes that although the tripartite agreement is yet to be executed, an escrow arrangement has been executed on an interim basis between the SPV and the lender. ICRA would monitor the progress in terms of execution of the tripartite agreement for the escrow, and the funding of the same by the authority. The viability gap funding (VGF) of Rs. 25/km paid by the State Government of Gujarat also offers comfort regarding the overall viability of the project. However, the timeliness of such receipts will remain critical, as the cash flows from intra-city operations would be in deficit for meeting the requirements. Nevertheless, comfort is drawn from the comfortable credit profile of AJL, which is the subsidiary of a profitable entity, Ahmedabad Municipal Corporation.

The rating assigned remains constrained by the limited track record of e-bus operations in India. Moreover, the ability of the project to maintain the required operating metrics in a sustained manner remains crucial from a credit perspective. Any underperformance in operations vis-à-vis agreed specifications, especially that which impacts 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 imports from China can impact the availability of components required for its operations. However, comfort is drawn from the fact that major cost elements such as maintenance costs, battery replacement costs, and penalties in case of bus non-availability, would be passed on to the OEM through back-to-back arrangements, thereby minimising the operational risks.

The Stable outlook on the long-term rating reflects ICRA's expectation that the company's operations are likely to proceed as per expectations, without any major disruptions. JBMA, one of the parent entities, is expected to support the project through any funding support if required.

Key rating drivers and their description

Credit strengths

Parentage of JBMA and majority ownership of JBM Group provides healthy financial support – JBM Group is one of the established players in the domestic automotive market, with presence across multiple product segments, OEMs and automotive segments, both as a component manufacturer and more recently, as an OEM as well. With the OEM for the project, JBMA, also being the majority shareholder in the SPV (62%), the execution and operational risks for the project remain mitigated to a large extent. Furthermore, the shortfall undertaking from JBMA to the lender and the healthy financial flexibility offered by being part of the $2.2-billion JBM Group, are likely to ensure timely availability of funds to meet any funding requirements. The financial closure of the project was completed in a timely manner with 100% equity brought upfront and debt tied up. The entire subsidy (Rs. 40.5 crore) has also been received by the SPV in line with the timely commercialisation of the project.

High revenue visibility as concession agreement provides fixed fee per km basis, and minimal traffic risk for an assured distance, subject to bus availability – In line with the GCC model and as per the terms of the Bus Operator Agreement, the Authority (AJL) would pay the SPV a fixed rate for a minimum assured distance of 70,000 km/bus annually, subject to bus availability. Accordingly, the SPV does not bear the traffic risk, 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. However, the clause related to unutilised km (due to lower requirement by the authority) to be paid at 50% of the applicable rate brings in some element of variability.

Minimal execution risk as the project is operational; back-to-back arrangements for maintenance and operations mitigates operational risks to a large extent – Although slightly behind schedule due to Covid-related restrictions, VTE achieved SCOD by August 16, 2021 and execution-related risks for the project are minimal, with its entire fleet of 90 e-buses delivered, charging infrastructure installed and depot handed over. For the maintenance of the buses, it has entered into an agreement with the OEM (JBMA) as per which the AMC charges payable to the OEM are defined. Furthermore, any penalties arising due to non-compliance with terms of the CA are expected to be recovered from either the OEM or the operator, which helps to mitigate risks and reduce 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 significantly on promoting electric vehicles (EVs) as a cleaner and sustainable form of transportation, with focus being 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 tender to operate e-buses in Ahmedabad is part of the FAME II scheme, wherein the OEM has received a subsidy of Rs. 45 lakh per bus, which was released in three tranches, of which the last one was received in April 2022. This significantly reduced the capital cost associated with the project and, thereby, improved project viability. Furthermore, the State Government of Gujarat is offering VGF of Rs. 25/km to authorities for operating e-buses, which further improves project viability.

Credit challenges

Counterparty risks owing to inadequate ticket collections from intra-city operations; risk of receivable build-up mitigated to an extent by the planned escrow mechanism – Intra-city bus operations, in general, are subsidised and are able to recover only 30-40% of the 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, the presence of an escrow mechanism, wherein the authority would be obligated to deposit two months of revenue payable as a payment reserve, reduces VTE's risks of elongated receivable cycle. Additionally, comfort is drawn from the relatively better credit profile of the counterparty, AJL, which is a 100% subsidiary of Ahmedabad Municipal Corporation, a profitable entity. Furthermore, the VGF offered by the State Government of Gujarat from its state budget on e-bus projects offers comfort.

Exposed to geo-political developments impacting supply of components – While the supply of the buses has been completed, the after sales service (especially battery replacement) would remain dependent on continuation of political relations between India and China, with any ban/disruption of EV-related imports likely to impact the project operations/viability. While chances of any adverse development between India and China with disruption/ban of EV-related imports from China remains low, given the global dependence on China for EV components, this would continue to remain a monitorable for the timely maintenance of deployed buses. Nevertheless, even in case of such adverse development, the company expects the OEM to be able to source components from manufacturing facilities in other locations.

Limited track record of e-bus operations – The EV segment, including e-buses is currently at a nascent stage in India, with limited track record of operations so far. While it has garnered increased interest over the recent past, with multiple tenders floated and emergence of multiple players (both domestic and foreign), the performance of these buses in the Indian conditions is yet to be established over a longer period. In ICRA's view, any underperformance in operation vis-à-vis agreed specifications, especially that which impacts the availability, reliability and maintenance of buses, has potential to impact the project viability and, hence, would be a key monitorable. Furthermore, the battery performance and bus efficiency would also remain critical for the project to generate optimal returns. Nevertheless, JBMA's improving presence as a key player in the e-bus segment offers comfort, with ~700 e-buses supplied so far. Moreover, back-to-back arrangement with the OEM to pass on any penalties that could arise from non-availability of buses mitigates risks to some extent.

Liquidity position: Adequate

As the operations have now stabilised, the liquidity position will be supported by cash flows from operations, which are expected to remain adequate to fund the debt repayments and interest payments. The requirement to maintain DSRA and an escrow arrangement (even as tripartite agreement is yet to be executed) provide comfort regarding timely servicing of debt obligations. ICRA notes that the company has received the entire subsidy from DHI and has completed the project capex. Additionally, 100% of the equity was infused by the promoters upfront. The liquidity of the promoter entity, JBMA, is expected to remain comfortable, supported by undrawn lines of credit from financial institutions. Moreover, the backing of the $2.2-billion JBM Group renders the SPV with ample financial flexibility to raise funds from financial institutions.

Rating sensitivities

Positive factors – The rating could be upgraded if the project is able to demonstrate an adequate track record of operations and timely receipt of receivables from the authority, leading to improvement in its liquidity and credit metrics. An improvement in the credit profile of the parent entity could lead to an improvement in the rating.

Negative factors – Negative pressure on rating could arise in case of a higher-than-expected build up in receivables, increasing reliance on external borrowings and, thereby, weakening credit metrics. A deterioration in the credit profile of the parent entity or linkages with the same could also trigger a downward revision in rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Impact of Parent or Group Support on an Issuer's Credit Rating Rating Methodology for Passenger Road Transport Entities
Parent/Group support	The rating assigned factors in the very likelihood of its parent entity, JBM Auto Limited, extending financial support to it because of the close business linkages between them. ICRA also expects JBMA to be willing to extend financial support to VTE 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

VT Emobility Private Limited is an SPV set up to procure, operate and maintain 90, nine-metre-long, fully built AC e-buses for intra-city public transport operations in Ahmedabad, Gujarat. The SPV was set up by a joint venture headed by JBM Auto Limited, along with Vivek Travels Private Limited, after JBMA had emerged as the successful bidder for the project. As per the terms of the concession agreement executed with the authority (Ahmedabad Janmarg Limited), VTE would be operating the buses for a period of 10 years on a GCC basis under the GoI's FAME II scheme, from which it has already received subsidy of Rs. 45 lakh per bus. The 90 e-buses have already been supplied and started operations from August 2021.

Key financial indicators (audited)

VTE Standalone	FY2022	9M FY2023*
Operating income	25.4	27.6
PAT	1.0	1.1
OPBDIT/OI	49.3%	49.2%
PAT/OI	3.9%	3.9%
Total outside liabilities/Tangible net worth (times)	13.5	9.0
Total debt/OPBDIT (times)	6.1	4.0
Interest coverage (times)	2.6	2.4

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

*Source: Company, ICRA Research; * Provisional numbers; All calculations are as per ICRA Research*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Feb 28, 2023	Dec 7, 2021	-	-
1	**Term loans**	Long term	69.86	55.4	**[ICRA]A- (Stable)**	**[ICRA]BBB+ (Stable)**	-	-
2	**Non Fund-Based Facilities**	Long term	32.40	NA	**[ICRA]A- (Stable)**	**[ICRA]BBB+ (Stable)**	-	-
3	**Unallocated Limits**	Long term	--	--	-	**[ICRA]BBB+ (Stable)**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term Loans	Simple
Non Fund-Based Facilities	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 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**	FY2022	NA	FY2029	69.86	[ICRA]A-(Stable)
NA	**Non Fund-Based Facilities**	FY2022	NA	NA	32.40	[ICRA]A-(Stable)

Source: Company

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

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