April 26, 2023

VSK City Bus Operations Pvt Ltd: Ratings reaffirmed

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	58.56	[ICRA]A- (Stable); reaffirmed
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)	(31.50)	[ICRA]A- (Stable); reaffirmed
Long-term Non-fund Based Bank Guarantee (backed by LoC) **	(78.75)	(78.75)	[ICRA]A- (Stable); reaffirmed
Long-term Non-fund Based Performance Bank Guarantee	2.23	0.0	--
Long-term/ Short-term Unallocated	12.77	12.77	[ICRA]A- (Stable)/ [ICRA] A2+; reaffirmed
Total	**152.31**	**150.08**	

**Instrument details are provided in Annexure-I. *Sub-limit of LOC ** Sanctioned against LOC from project lender*

Rationale

The rating reaffirmation for VSK City Bus Operations Pvt Ltd (VSK) factors in the successful delivery of the entire 175 buses to the Meerut City Transport Services Ltd. (the authority; thus, eliminating project implementation risk) and the satisfactory operational track record of about a year till date. The commercial operation date (COD) for the first lot of 100 buses was declared on August 1, 2022, and while a COD is awaited on the remaining 75 buses, all of them are operational as of March 31, 2023. The operational performance of the buses till date has been largely in line with expectations and receivable realisations has also been largely steady since the commencement of commercial operations.

The ratings continue to factor VSK'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 for having strong sponsors and the large capital commitments made by the sponsors—National Investment and Infrastructure Fund Limited (NIIF, India's first sovereign wealth fund) and the Government of the United Kingdom's (UK) Foreign, Commonwealth & Development Office (FCDO) being the anchor investors—through the Green Growth Equity Fund (GGEF). The presence of a strong sponsor and a shortfall undertaking from GMPL to the lender is a credit positive and likely to ensure timely availability of funds to meet any incidental funding requirements for the project. Even as there was some delay in delivery of certain bus parts (mainly battery) due to Covid related lockdowns in China, GMPL infused incremental funding of ~Rs. 25 crore in VSK (in the form of non-convertible debentures[1]) to accelerate procurement of the buses, pending release of FAME[2] subsidy, evidencing its commitment to the project.

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

[2] Faster Adoption and Manufacturing of Hybrid and Electric Vehicles Scheme

Further, the rating takes comfort from the revenue visibility for VSK as the 10-year concession agreement (CA) with the authority essentially translates into an annuity model of revenues wherein the SPV (viz., VSK) will be paid a fixed rate for a minimum assured distance of 63,000 km/bus/year, subject to the assured bus availability. ICRA also draws comfort from the presence of an established key component supplier (KCS), Beiqi Foton Motors (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 sale 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 bus non-availability.

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 is obligated to deposit the revenues from ticket collections while also maintaining three months of revenue payable as a payment reserve. ICRA notes that there have been instances of dip in payment reserve over the past few months; accordingly, the timely top up of the reserve would remain a monitorable. The authority has also provided 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 for both lots was received in a timely manner and subsidy for the second tranche has been received by the authority from DHI (as guided by the management).

The Stable outlook on the rating reflects ICRA's opinion that the company's cash flows will remain stable, supported by consistent operational performance and the availability of long-term agreement with the authority. The parent entity, GMPL, is expected to support the project through any interim funding support to meet any cashflow mismatches.

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 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 NIIF (India's first sovereign wealth fund) and the Government of United Kingdom's FCD (formerly the Department for International Development). 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 1,050 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.

High revenue visibility on the basis of per kilometer 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 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

[3] 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.

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 kilomteres 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 ticket collections. As such, the dependence on timely Government grants/support to authorities for funding the gap remains critical.

Back-to-back arrangements for maintenance and operations mitigates operational risks – The SPV achieved commecialisation of all buses by December 2022, with its entire fleet of 175 e-buses now operational. The SPV has entered into a sales and aftersales agreement with PEMPSL (OEM) and Beiqi Foton, China (the KCS), as per which the OEM and KCS are responsible for maintaining the buses, through an AMC. A similar agreement has been executed with the with PEMPSL for bus operations. Any penalties arising due to non-compliance with terms of the Bus Operator Agreement are expected to be recovered from the OEM, which further mitigates risks and reduces cash flow variability.

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 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 is eligible for a subsidy of Rs. 45 lakh per bus (~57% of bus cost). The subsidy is to be released in three tranches within six months of commencement of operations (~40% of subsidy already received, and another Rs 15.5 authorized by DHI) 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 of elongated receivables 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 presence of a corpus created by the State Government of Uttar Pradesh, through implementation of 2% cess on property transactions, 25% of which is earmarked for urban transportation requirements, 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.

Exposed to geo-political developments impacting supply of components – The supply and after-sales service of buses would remain dependent upon the amicable relationship between India and China. Any disruption or restriction on EV-related imports is 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 developments, 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 1,050 e-buses over the past 3-4 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; ICRA notes that the project has been able to largely meet the specification as per the concessionaire agreement from the commencement of operations till date. ICRA continues to take comfort from the presence of a strong technical partner, Beiqi Foton Motor Company Limited, which is a leading global e-bus manufacturer globally with an established track record of operations. Moreover, back-to-back arrangement with the OEM to pass on any penalties that could arise due to nonavailability of buses mitigates the risks to some extent.

Liquidity position: Adequate

While the project has recently commercialised and is still in the process of stabilisation, its liquidity position is expected to remain adequate supported by subsidy receivable from DHI, support from the promoter entity and operational surplus. ICRA notes that ~ 40% subsidy has already been received by the SPV, another ~ 20% has been received by authority from DHI and is expected to be released to the SPV shortly. 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 timely payments by the authority. In addition, timely receipt of the FAME subsidy will also remain key.

Negative factors – Negative pressure on rating could arise if there are 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 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 VSK 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

VSK City Bus Operations Private Limited is an SPV setup 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 (CA) 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 the Gross Cost Contract (GCC) basis and are eligible for a subsidy of Rs. 45 lakhs per bus, from the Government of India under the FAME II scheme.

Key financial indicators (audited)

VSK Standalone	FY2022
Operating income	7.9
PAT	-0.3
OPBDIT/OI	-0.4%
PAT/OI	-3.2%
Total outside liabilities/Tangible net worth (times)	8.2
Total debt/OPBDIT (times)	N.M.
Interest coverage (times)	N.M.

Amount in Rs crore. All calculations are as per ICRA Research. PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes, and amortisation; N.M- Not meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Apr 26, 2023	--	Jan 17, 2022	-
1	Term loans	Long term	58.56	57.36	[ICRA]A- (Stable)	--	[ICRA]A- (Stable)	--
2	Letter of Comfort	Long term	78.75	31.50	[ICRA]A- (Stable)	--	[ICRA]A-(Stable)	--
3	Fund-based interchangeable*	Long term	(31.50)	(31.50)	[ICRA]A- (Stable)	--	[ICRA]A-(Stable)	--
4	Bank Guarantee (backed by LoC)**	Long term	(78.75)	--	[ICRA]A- (Stable)	--	[ICRA]A-(Stable)	--
5	Bank Guarantee	Long term	0.0	--	--	--	[ICRA]A-(Stable)	--
6	Unallocated Limits	Long term and short term	12.77	--	[ICRA]A-(Stable)/ [ICRA]A2+	--	[ICRA]A-(Stable)/ [ICRA]A2+	--

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

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Term Loan	Simple
Long-term Letter of Comfort	Very Simple
Long-term Fund-based interchangeable	Simple

Long-term Bank Guarantee (backed by LoC)	Very Simple
Long term and 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
-	**Term Loan**	Aug 4, 2021	-	FY2030	58.56	[ICRA]A- (Stable)
-	**Letter of Comfort**	Aug 4, 2021	-	FY2027	78.75	[ICRA]A- (Stable)
-	**Fund-based Interchangeable***	Aug 4, 2021	-	-	(31.50)	[ICRA]A- (Stable)
-	**Bank Guarantee (backed by LoC)****	Nov 18, 2021	-	FY2027	(78.75)	[ICRA]A- (Stable)
-	**Unallocated Limits**	-	-	-	12.77	[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 II: List of entities considered for consolidated analysis– Not applicable

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