

August 27, 2024

TML Smart City Mobility Solutions Limited: Long-term rating upgraded to [ICRA]AA+ (Stable), short-term rating reaffirmed

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Previous Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term Loan	347.00	347.00	[ICRA]AA+ (Stable); upgraded from [ICRA]AA (Stable)
Short-term – Non-fund Based – BG	467.00	467.00	[ICRA]A1+; reaffirmed
Long-term – Fund-based - Working Capital Limits – CC	15.00	15.00	[ICRA]AA+ (Stable); upgraded from [ICRA]AA (Stable)
Long-term/Short-term – Unallocated Limits	421.00	421.00	[ICRA]AA+ (Stable); upgraded from [ICRA]AA (Stable)/ [ICRA]A1+; reaffirmed
Total	1,250.00	1,250.00	

*Instrument details are provided in Annexure-I

Rationale

The upgrade of the long-term rating of TML Smart City Mobility Solutions Limited (TMLSC) factors in the improvement in the credit profile of its parent, Tata Motors Limited (TML, rated [ICRA]AA+ (Stable)/ [ICRA]A1+). TML Group is the market leader in the domestic commercial vehicle (CV) segment and one of the top three players in the domestic passenger vehicle (PV) segment. The rating upgrade has been driven by significant deleveraging for TML, supported by an increase in its operating profit margin (OPM) and overall free cash flow generation, aided by improvement in the performance of Jaguar and Land Rover Automotive PLC (JLR) and strong performance across the domestic business segments. Further, TML's credit profile is expected to continue to strengthen with JLR likely to continue its deleveraging, supported by the sustenance of its operational performance. TML is also expected to sustain its strong performance in the domestic CV and PV industries, while the electric vehicle (EV) segment (under Tata Passenger Electric Mobility Limited) is also expected to attain breakeven OPBDITA over the medium term. TMLSC also benefits from the exceptional financial flexibility it gets for being a subsidiary of TML, which includes the extension of the inter-corporate deposit (ICD) line from TML.

TMLSC is established by TML to operate electric buses (e-buses) on a gross cost contract (GCC) basis. In December 2022, TMLSC signed a concession agreement (CA) with Bangalore Metropolitan Transport Cooperation (BMTC) for the procurement, supply, maintenance and operations of 921, 12-metre non-AC, e-buses on intra-city routes in Bangalore. Similarly, in October 2022, TML Smart City Mobility Solutions (J&K) Private Limited (TMLJ&K) signed CAs with Jammu Smart City Limited (JSCL) and Srinagar Smart City Limited (SSCL), in a largely similar model within the Faster Adoption and Manufacturing of Hybrid and Electric Vehicles (FAME II) scheme, for the procurement, supply, maintenance and operations of 75, 9-meter AC e-buses and 25, 12-meter AC e-buses, each. Going forward, TMLSC is likely to act as the holding company for all future e-bus projects of TML.

The agreements span 12 years from its scheduled commercial date of operations (SCOD), during which the companies would be paid a fixed rate (Bangalore – Rs. 41.01 per km, J&K – Rs. 55.62 per km for 12-meter buses and Rs. 47.79 per km for 9-meter e-buses) with a pre-determined escalation clause for a minimum assured distance of 70,000 km annually for each bus. Accordingly, the SPVs are not exposed to the traffic risks on the routes operated, ensuring high revenue visibility, contingent around maintaining a contractually agreed bus availability of 95%, which TMLSC has largely been able to maintain for the deployed buses. The projects are entirely under the FAME-II scheme of the Government of India, as per which they are eligible to receive capital subsidy from the Department of Heavy Industries (DHI) in three tranches. The subsidy reduces capital costs

and limits dependence on external borrowings for the project, as 35% to 45% of the total project cost would be funded by the subsidy, thus strengthening the capitalisation and coverage metrics.

The financial closure of the projects has been completed in a timely manner, with an equity infusion of ~Rs. 159 crore in TMLSC and ~Rs. 40 crore in TMLJ&K for funding the bus costs. Further, TMLSC and TMLJ&K have secured a term loan sanction of Rs. 347 crore and Rs. 64 crore, respectively, to partly fund the bus cost. Besides, ICRA believes the extension of the ICD line from TML, and TMLSC's healthy financial flexibility for being a part of the Tata Group, are likely to ensure timely availability of funds to meet future funding requirements in case of any exigency.

The ratings also factor in the execution and operational risks, given that the company began supplying e-buses to BMTC only from December 2023 and to JSCL and SSCL from January 2024 and November 2023, respectively. The delivery of 200 e-buses in Jammu and Srinagar was completed in June 2024, whereas deployment in Bangalore is under progress. The deployment is expected to be completed within FY2025, albeit with some delay against the originally expected timelines. However, this is not expected to have any material impact on the overall operations as each bus would complete 12 years under deployment, as per the agreement. The original equipment manufacturer (OEM) for all three the projects is TML, the ultimate parent company.

The ratings factor in the counterparty risks for the project, considering that intra-city operations are generally subsidised, and traffic receipts are unlikely to cover the payments to be made to the service provider from the authority. However, these risks are mitigated to a large extent by the escrow arrangement, wherein the escrow account is to be funded by the authority with two months of estimated payables and maintained throughout the project duration.

ICRA also notes that e-bus operations in the country are currently in the nascent stage, and the sustained performance of the buses and batteries in the domestic market conditions remains to be seen. Despite the limited track record of e-bus operations in the country, comfort is drawn from the Tata Group's combined deployment of more than 1,500 e-buses in Delhi, Bangalore and Jammu and Srinagar. Its e-bus fleet has cumulatively covered more than 160 million km with more than 95% uptime till June 30, 2024. Additionally, the established experience of TML in the domestic automotive market provides comfort.

The stabilisation of operations post deployment of the e-buses remains important for the projects. Moreover, achievement of the required operating metrics for the projects in a sustained manner remains crucial from the credit perspective. Any underperformance in operations vis-à-vis agreed specifications, especially which impacts the 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 development related to the import of EV components can impact the availability of components required for its operations.

The Stable outlook on the long-term rating reflects ICRA's expectation that the companies are likely to deploy and operate the buses in a timely manner with minimal delays and as per expected operating metrics.

Key rating drivers and their description

Credit strengths

Strong parentage and financial support from the Tata Group, along with associated financial flexibility – TMLSC is a wholly owned subsidiary of TML. TML Group is the market leader in the domestic CV market, and among the top three players in the domestic PV segment. As TML is also the OEM in all three contracts, the execution and operational risks for the project remain mitigated to a large extent. Further, the Group's demonstrated support in the form of approved unsecured ICDs and additional equity commitments (over and above that required for funding bus costs proportionately) along with the promoter's undertaking by TML for TMLSC's bank facilities, are likely to ensure timely availability of funds to meet any requirement. ICRA also notes the very high operational, managerial and financial linkages among TML, TMLSC and TML J&K, with the operations of the subsidiaries managed by a seasoned team of veterans from TML, and an overlapping treasury team to manage the finances.

High revenue visibility, with minimal traffic risk – In line with the GCC model and as defined in the CA, the authorities would pay the service providers a fixed rate for a minimum contractually assured distance, subject to bus availability. Accordingly,

the company does not bear the traffic risk and only needs to ensure the 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. While the clause related to unutilised kilometre due to lower requirements by the authority (to be paid at 75% of the applicable rate) brings in some element of variability in the Bangalore project, 100% of the applicable rate would be paid for the J&K project, in case of unutilised kilometre.

Availability of capital subsidy strengthens capitalisation and coverage metrics – The Government of India is focussing significantly on promoting EVs as a cleaner and sustainable form of transportation, with more importance 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 projects are eligible for subsidy of 35% to 50% of the total cost for the projects, which has helped reduce dependence on external debt funding for the project significantly and thereby improves the capitalisation and coverage metrics of the company.

Credit challenges

Risks of counterparty and receivable build-up pertaining to both subsidy and revenues – Intra-city bus operations, in general, are subsidised and are not able to recover the entire revenue payable from their ticket collections. Thus, the dependence on timely Government grants/support to authorities for funding the gap remains critical. While this elevates the counterparty risks for such projects, an escrow mechanism, wherein the authorities would be obligated to deposit two months of revenue payable as a payment reserve, reduces TMLSC's risks of an elongated receivable cycle. However, proper implementation of the escrow mechanism continues to remain a key monitorable. In this regard, ICRA also notes that the relevant industry players continue to interact with the authorities for a better payment security mechanism and an asset light business model. Comfort is also drawn from the track record of the Karnataka Government in supporting BMTC through sizeable budgetary allocations and focus on the Smart City projects for Jammu and Srinagar under JSCL and SSCL.

Project remains exposed to execution risks and geopolitical developments impacting supply of components – Although the delivery of buses in Jammu and Srinagar has been completed, TMLSC remains exposed to some execution risks till the commencement of full commercial operations in Bangalore which has seen minor delays in deployment. Moreover, any non-compliance with the terms of the CA, delay in bus deliveries or handover of bus depots, could further delay the project execution, and remains a monitorable. Nevertheless, in case of any interim cash flow mismatch due to cost overruns or delay in receipt of subsidy, financial support is likely to be provided by the promoter group in the form of ICDs, extended credit period or additional equity infusion, as required. Further, the after-sales service (especially battery replacement) would depend on imports and any disruption in the supply of such EV components due to geopolitical developments is likely to impact the project operations/viability. Nevertheless, the Group's plan to venture into battery manufacturing through Agratas Energy Storage Solutions Limited lowers the risk of the EV supply chain.

Limited overall track record of e-bus operations – The EV segment, including e-buses, is currently at a nascent stage in India, with a limited track record of operations so far. While it has recently garnered increased interest, with multiple tenders floated and the emergence of multiple players (both domestic and foreign), the performance of these buses in Indian conditions is yet to be established over a long period. In ICRA's view, any underperformance in operations vis-à-vis the agreed specifications, especially that impacts the availability, reliability and maintenance of buses, has the potential to affect the project viability and, hence, would be a key monitorable. Besides, battery performance and bus efficiency would remain critical for the project to generate optimal returns. Nevertheless, comfort can be drawn from TML's growing presence as a key player in the e-bus segment and its track record of successful operations on the routes deployed, along with the extensive experience of the Group in the domestic automotive market. The Group has successfully deployed more than 1,300 buses in Bangalore and Delhi under the Convergence Energy Services Limited (CESL) tender and its e-bus fleet has covered a cumulative distance of more than 160 million km with more than 95% uptime till Q1 FY2025.

Liquidity position: Adequate

TMLSC's liquidity position is adequate, augmented by financial support extended by the promoter entity and cash flows generated from the operational buses. The liquidity position of the company is likely to remain comfortable with adequate term loans tied up for funding the procurement of the balance buses, expectations of timely equity infusion by TML, and an extended ICD line from TML.

Rating sensitivities

Positive factors – The long-term rating could be upgraded in case of a further improvement in the credit profile of TML, the parent entity.

Negative factors – Pressure on the ratings could arise in case of any material change in TML's credit profile or its support to the company. In addition, considerable delay in delivery/commissioning of the buses or a material increase in external borrowings, impacting the project viability, and any significant delay in receipt of subsidy or receivables, would also remain negative factors.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	The ratings are based on implicit support from Tata Motors Ltd (TML). ICRA expects TML to extend timely financial support to TMLSC, should there be a need, given the strong operational, financial and managerial linkages between them.
Consolidation/Standalone	For its analysis, ICRA has estimated the consolidated financials of the company. As on March 31, 2024, TMLSC had one subsidiary, which is enlisted in Annexure II.

About the company

Incorporated on May 25, 2022, TMLSC (a subsidiary of TML), was established to operate and maintain e-buses of TML on a GCC basis. TMLSC has a contract to deploy 921 buses for Bangalore Metropolitan Transport Cooperation (BMTC) on a GCC basis, under the FAME-II scheme of the Central Government. Also, TMLSC serves as the holding company for TML J&K, which has been established to operate e-buses in Jammu and Kashmir in a largely similar model within the FAME-II scheme. Going forward, TMLSC is likely to act as the holding company for all future e-bus projects of TML. The contract secured from BMTC comprises a Concession Agreement for 921, 12-metre e-buses, entered in December 2022, of which some buses were deployed over FY2024 and Q1 FY2025. The contract extends for a period of 12 years and will be operated under the GCC model and is eligible for capital subsidy from DHI under the FAME-II scheme. The OEM for the contract is TML.

As of March 31, 2024, TML owned 99.99% of the equity stake in the company.

Key financial indicators (audited)

TMLSC – consolidated	FY2023	FY2024
Operating income	-	370.4
PAT	-2.0	-2.7
OPBDIT/OI	-	-0.2%
PAT/OI	-	-0.7%
Total outside liabilities/Tangible net worth (times)	24.8	4.3
Total debt/OPBDIT (times)	-	-311.7
Interest coverage (times)	-	-0.2

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; operations had not started in FY2023
Source: Company financials and ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Chronology of rating history for the past 3 years				
			Current rating (FY2025)		Date & rating in FY2023	Date & rating in FY2022	
			Date & rating in FY2025	Date & rating in FY2024			
1	Term Loan	Long term	347.00	August 27, 2024 [ICRA]AA+ (Stable)	Mar 29, 2024 [ICRA]AA (Stable)	-	-
2	Non-Fund Based – BG	Short term	467.00	[ICRA]A1+	[ICRA]A1+	-	-
3	Working Capital Limits - CC	Long term	15.00	[ICRA]AA+ (Stable)	[ICRA]AA (Stable)	-	-
4	Unallocated Limits	Long term and short term	421.00	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA (Stable)/ [ICRA]A1+	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term - Fund Based – Term Loan	Simple
Short Term – Non-Fund Based – BG	Very simple
Long Term – Fund Based - Working Capital Limits – CC	Simple
Long Term/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
NA	Long Term - Fund Based – Term Loan	February 2024	8.45%	March 2033	347.00	[ICRA]AA+ (Stable)
NA	Short Term – Non-Fund Based – BG	-	-	-	467.00	[ICRA]A1+
NA	Long Term – Fund Based - Working Capital Limits - CC	-	-	-	15.00	[ICRA]AA+ (Stable)
NA	Long Term/Short Term -Unallocated Limits	-	-	-	421.00	[ICRA]AA+ (Stable)/ [ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis

Company Name	TMLSC's Ownership	Consolidation Approach
TML Smart City Mobility Solutions (J&K) Private Limited	99.99%	Full Consolidation

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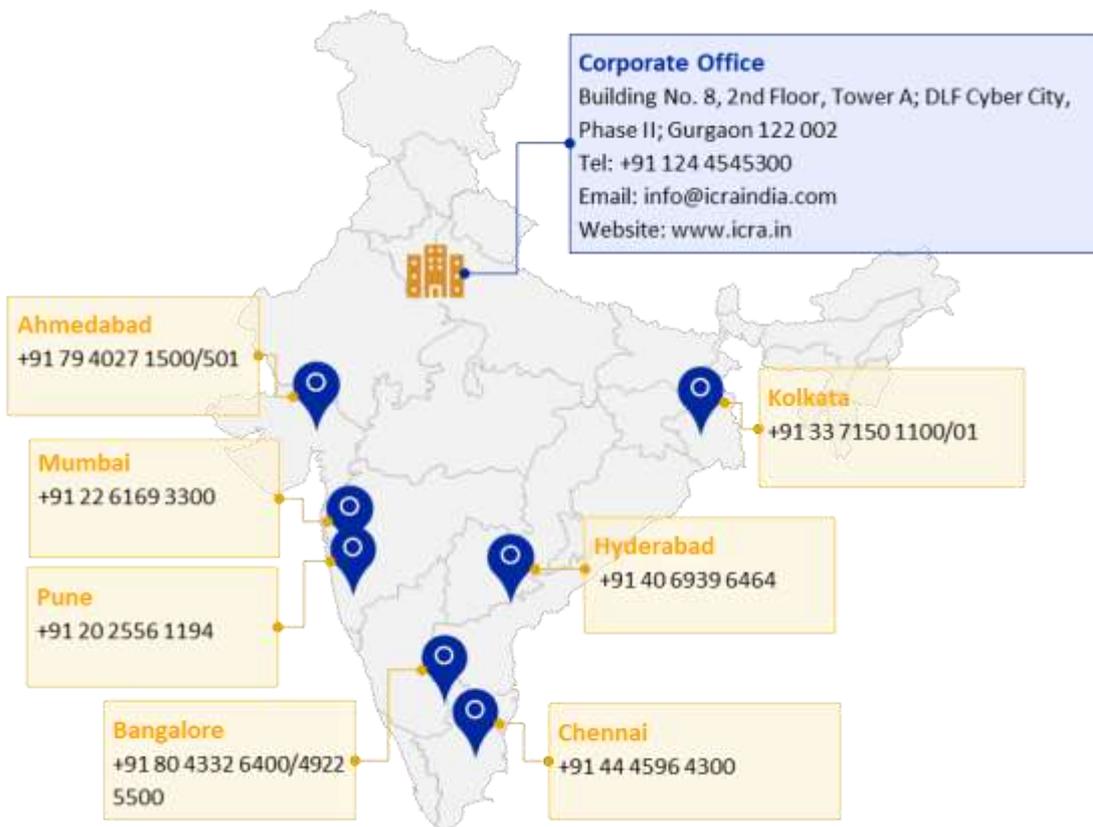
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