

## Pinnacle Mobility Solutions Private Limited

March 27, 2024

| Facilities/Instruments               | Amount (₹ crore) | Rating <sup>1</sup>       | Rating Action |
|--------------------------------------|------------------|---------------------------|---------------|
| Long-term bank facilities            | 200.00           | CARE BBB; Stable          | Assigned      |
| Long-term/Short-term bank facilities | 150.00           | CARE BBB; Stable/CARE A3+ | Assigned      |

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Ratings assigned to bank facilities of Pinnacle Mobility Solutions Private Limited (PMSPL) derive strength from the strong technical and financial support derived from the Netherland-based VDL Group, a renowned and established group with global operations in various domains, including electric bus (E-Bus) manufacturing, and the Japan-based Mitsui & Co. Ltd (Mitsui), a conglomerate having worldwide operations across various segments. Additionally, ratings also derive comfort from the experienced promoters in the automobile ancillary business with foray into the electric vehicle (EV) manufacturing.

Ratings also factor the operational synergy derived by PMSPL being part of the Pinnacle Group, with its flagship entity, Pinnacle Industries Limited (PIL; rated 'CARE BBB; Stable/CARE A2') having an established position in the commercial vehicle (CV) seating and interior segment.

Ratings also derive comfort from PMSPL's moderate capital structure with low project leverage, adequate orderbook providing moderate revenue visibility, collaboration with an established distribution partner, its adequate liquidity to support the initial phase of operation and growing demand for the EVs.

However, above rating strengths are constrained by the company's nascent stage of operations, implementation and saleability risk associated with the on-going project and its presence in a competitive automobile industry dominated by few large-established companies. Ratings of PMSPL are also constrained due to the profitability susceptible to volatile raw material prices with the tender-driven nature of the business.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors:

- Total operating income (TOI) above ₹1,200 crore with the profit before interest, lease, depreciation and tax (PBILDT) margin above 5% on a sustained basis.
- Improving total debt to PBILDT below 4x on a sustained basis.
- Improving interest coverage ratio of above 3x on a sustained basis.

#### Negative factors:

- Delaying receipt of the envisaged funds and/or completion of the project resulting in the lower-than-envisaged revenue and profitability.
- Increasing overall gearing above unity.

### Analytical approach: Standalone

#### Outlook: Stable

The Stable outlook reflects the company's ability to maintain its adequate business risk profile with commencement of the operations from a temporary set-up and moderate revenue visibility. Also, considering the availability of the free cash and bank balance with receipt of part of the equity commitment, entity would continue to maintain its moderate financial risk profile.

### Detailed description of the key rating drivers

#### Key strengths

##### Strong technical and financial support from VDL group and Mitsui

VDL International B.V., part of the Netherland-based VDL group, has infused equity of ₹222.74 crore (EURO 25 million) in PMSPL in a phase-wise manner from Q3FY24. Founded in 1953, VDL group is present in 19 countries with business spanning across multiple segments including mobility. It is a leading player in the development and production of E-Bus & coaches, trucks, and electric heavy vehicles in Europe. According to the technology transfer agreement between VDL Bus and Coach (part of the VDL group) and PMSPL, the former would provide the necessary technology and tooling support to PMSPL for E-Bus manufacturing, in a phase-wise manner.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

Mitsui, established in 1947, is a conglomerate and has operations across the globe with business interest across various segments. According to the agreement between Mitsui and PMSPL, the former has agreed an investment of ₹600 crore in three equal tranches via 0.001% non-cumulative compulsory convertible preference share (NCCCPS). Out of the said investment, Mitsui has already invested first tranche of ₹200 crore in December 2023 month, whereas the balance two tranches of ₹200 crore each are expected to receive by end of May 2024 and October 2024, respectively.

Thus, CARE Ratings Limited (CARE Ratings) notes that the collaboration with the VDL Group and Mitsui would provide a competitive edge and enable PMSPL to scale up its manufacturing operations and offer technologically advanced solutions in a cost-effective manner.

### **Experienced promoters in the automobile ancillary business with operational synergy from group**

PMSPL's promoters are engaged in the automobile component industry through its flagship entity, PIL, which is engaged in providing seating system, automotive interiors, EV components, railway seating, and speciality vehicles including modernisation and customisation of the CVs. It supplies all the non-electrical non-mechanical components to PMSPL for its E-bus and E- SCV thus resulting in better lead time and faster turnaround with adherence to stringent quality.

Kider India Pvt Ltd (KIPL, an associate of PIL), is the manufacturer and exporter of retail fixtures and industrial solutions and structural part (stainless steel) for EVs, which it also supplies to PMSPL.

VDL Pinnacle Engineering India Ltd (VDL Pinnacle) is a joint venture (JV) of the VDL Group and PIL. VDL Pinnacle is a turnkey production systems supplier to the automotive industry. It also provides the services in the process engineering, tool design, robot simulation, layouts, and facilities engineering. PMSPL derives benefit from the expertise of VDL Pinnacle in smart and lean factory solutions and plant automations.

Overall, PMSPL benefits from the operational synergy from being part of the Pinnacle group which contributes around 10-12% of its EV requirements.

### **Foray into the EV manufacturing**

PMSPL was established in 2019. It is also one of the top-10 applicants selected under the automobile production linked incentive (PLI) scheme. PMSPL has successfully developed and homologated 9 mtr E-bus and 1.50 tonne electric small commercial vehicles (E-SCV) whereas 7 mtr, 10.50 mtr and 12 mtr E-Bus will be launched shortly. CARE Ratings notes that, both the E-Bus and E-SCV have been designed and developed by in-house dedicated team, which enables the quick redressal of technical problems and customisation as per customer requirements. Currently, PMSPL has installed capacity of 25 E-Buses per shift per month and 2 SCVs per day.

### **Low project leverage leading to a moderate capital structure**

PMSPL is undertaking a capex for the manufacturing of E-bus and E-SCV at Chakan (Pune) plant. The land for the been taken on the long-term lease from PIL. The total project cost is estimated at ₹589 crore (including technology transfer and tooling from VDL Group) which will be funded from the term loan of ₹200 crore and balance from the equity contribution resulting in low project debt to equity of 0.51:1.

PIL already raised equity capital of ₹483.23 crore as on December 31, 2023. It is also expected to an equity of ₹400 crore in FY25 to fund its capex as well as operational expenditure (opex) requirements (including loss funding).

CARE Ratings has treated the investment from the Mitsui as part of the net worth considering its tenure and purpose. Thus, with low reliance on debt, CARE Ratings expects PMSPL to maintain its moderate leverage in near to medium term.

### **Moderate revenue visibility**

As on December 31, 2023, PMSPL has confirmed order of 327 E-Buses [including 77 orders under Gross Cost Contract (GCC) model] and balance for outright sales. Out of the same, 77 buses are to be executed by March 2024 and balance by September 2024. Apart from these, PMSPL has also bid for several orders/tenders wherein for the orders of around 860 E-Buses, it is under advance stage of negotiation.

For E-SCV, PMSPL has order book of over 3,00, which will be executed over next 12-18 months. The aforesaid orderbook provides a revenue visibility of around ₹650-700 crore in FY25.

While the orders for the E-Buses are under the business to government (B-to-G) as well as outright sales, E-SCVs are purely an outright sale to private customers. Many orders from the Convergence Energy Services Ltd (CESL) (B-to-G) are eligible for the central government subsidies which will directly paid to the bus operator, whereas the latter will pay PMSPL as per the payment terms for its bus supplies which is a mix of advance payment and credit.

### **Established distribution partner**

PMSPL has entered distributorship agreement with PPS Motors Private Limited (PPS) in November 2023 for a period of five years. Under this agreement, PPS will be a distribution partner for PMSPL for its EVs (E-Bus and E-SCV).

PPS' promoters have over 70 years of experience in the automotive dealership business. The group operates several dealerships in the passenger vehicle segments, including Maruti Suzuki India Ltd, Mahindra and Mahindra Ltd, Kia Motors India Private Limited, MG Motors, and Audi India Limited among others.

CARE Ratings notes that the association with PPS would lead to benefits of its wide distribution network in India. It would undertake spare/service and after sales requirements for the E-Bus and E-SCVs.

### **Growing demand of the EVs**

The National Electric Bus Program aims to deploy 50,000 e-buses throughout the country. It will assist state transport undertakings (STUs) in incorporating E-Buses into their operations and collaborate with both states and distribution companies to establish charging infrastructure at their depots. Many states have already announced their respective State EV policy. Penetration in the E-Bus segment is thus expected to improve over the medium term as private players and several states start deploying electric buses in public transport owing to favourable government policies and cost advantage against traditional diesel buses.

### **Key weaknesses**

#### **Nascent stage of operations**

Though PMSPL was incorporated in 2019, it did not have any major operation till FY23. In FY22, it reported TOI of ₹8.89 crore mainly from the trading sales. In FY23, it reported of ₹2.90 crore from SCV sales, with major operations having commenced in 9MFY24 with TOI of ₹29.59 crore. Consequently, the company reported losses in 9MFY24, considering the limited scale and elevated cost structure.

While the operations are envisaged to scale up in line with completion of the ongoing capex and orders on hand, timeliness of the same shall remain crucial from credit perspective.

#### **Implementation and saleability risk associated with the on-going project**

PMSPL is undertaking a project for setting up manufacturing facilities for E-bus and E-SCV at Chakan (Pune). Out of the total project cost of ₹589 crore, PMSPL had incurred around ₹273 crore as on December 31, 2023 (including ₹34 crore for the operational requirement). The project is expected to complete by end of December 2024. Post completion of the capex, PMSPL will have total capacity of 100 E-Buses per month per shift and around 625 E-SCV per month per shift.

The project is planned considering good growth prospects of the EVs in India with favourable policy environment. Considering the project type and experienced management and the appointment of the domain-specific experienced professionals, the implementation risk is low.

However, project completion in the envisaged time and cost parameter would remain a key rating monitorable considering the order execution timeline.

Many industry peers are undergoing the capacity expansion capex, which could lead to saleability risk in case any moderation in demand, and thus impact the return indicators. Also, with major inflow of tender-based Government orders, operations are also prone to any unfavourable changes in the government policy. However, the risk is mitigated to a certain extent as PMSPL also has private orders in its order book.

CARE Ratings notes that receipt of the balance two tranches of the equity investment from Mitsui is linked to certain milestones. While CARE Ratings notes that PMSPL is on track regarding the milestone achievability, the receipt of equity within the envisaged timeline shall remain crucial from the credit perspective.

#### **Presence in the competitive automobile industry**

PMSPL operates in a competitive electric bus industry dominated by few large players having long-established presence in conventional automobile business. Intense competition in the industry limits the pricing abilities of the industry players. Currently, the industry players are mainly catering to STUs and the competition in this segment is increasing with tender-driven nature of the business.

However, the company benefits due to its competitive advantage from its technical collaboration with the renowned players. Also, some players operational in the industry are exposed to adverse geo-political issues considering their dependence on Chinese players for continued technology support.

#### **Profitability susceptible to the volatile raw material prices with the tender-driven nature of the business**

The key raw materials required for auto original equipment manufacturers (OEMs) and electric mobility are steel, iron, aluminium, copper, rubber, glass, lithium, cobalt, nickel, and platinum. Batteries are one of the major cost components of the EVs (forming around 40-45% of the cost of vehicle depending on the type and application). These raw material prices are highly volatile depending on the international demand-supply dynamics and can thus impact the players' profitability, considering a need to maintain a sufficient inventory for un-interrupted operations.

**Liquidity: Adequate**

PMSPL has adequate liquidity considering the receipt of part of the proposed equity funding towards the project execution which will also be used for the opex purpose. Considering the initial phase of operations, PMSPL is expected to incur losses which would be funded from the available liquidity. Also, PMSPL is expected to receive balance two tranches of ₹200 crore each from Mitsui which would provide further cushion to scale-up its operation and incremental capex needs.

Average fund-based working capital utilisation remained low at around 21% for past 8 months ended December 2023. However, working capital requirement is expected to increase going forward with an increase in the order execution for which the company is planning to avail additional limits of ₹150 crore (including non-fund-based limits).

Many orders from CESL (business to government orders) are eligible for the central government subsidies which is directly paid to the bus operator, whereas the bus operator will pay PMSPL per the payment terms, which is a combination of part of the advance payment against the order and credit terms ranging from 70 to 90 days from the supply. Outright sales to the customers (business to consumer) also have a similar payment mechanism. The company will also be required to maintain high inventory as the delivery of vehicles is to be done over a certain period (typically 3 months to 1 year) to minimise the exposure to the raw material price volatility considering the fixed price of the contracts. The company would also need to provide the bank guarantee for the bidding of the project mainly with the central government orders.

**Assumptions/Covenants:** Not applicable

**Environment, social and governance risk (ESG) risks:** Not applicable

**Applicable criteria**

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Commercial Vehicles](#)

[Manufacturing Companies](#)

[Financial Ratios – Non financial Sector](#)

[Short Term Instruments](#)

**About the company and industry****Industry classification**

| Macro-economic Indicator | Sector                         | Industry    | Basic Industry                    |
|--------------------------|--------------------------------|-------------|-----------------------------------|
| Consumer discretionary   | Automobile and auto components | Automobiles | Passenger cars & utility vehicles |

PMSPL (CIN: U34100PN2019PTC196186) was established in 2019 as Ion Mobility Pvt Ltd. It has created a prototype of E-Bus namely "EKA". It is also one of the top-10 applicants selected under the automobile PLI scheme. Currently, PMSPL is undertaking the capex for the manufacturing of the E-bus and E-SCV at Chakan, Pune, with installed capacity of 100 E-Buses per shift per month and 625 E-SCV's per shift per month. The project is expected to complete by end of December 2024.

PIL holds 59.24% equity stake followed by Sudhir Mehta holding 39.58% and VDL Pinnacle of 1.18% as on March 31, 2023.

| Brief Financials (₹ crore) | March 31, 2022 (A) | March 31, 2023 (A) | 9MFY24 (UA) |
|----------------------------|--------------------|--------------------|-------------|
| Total operating income     | 8.89               | 2.90               | 29.59       |
| PBILDT                     | -1.09              | -9.17              | -20.51      |
| PAT                        | -0.89              | -9.87              | -19.58      |
| Overall gearing (times)    | 0.23               | 0.18               | 0.01        |
| Interest coverage (times)  | NM                 | NM                 | NM          |

A: Audited; UA: Un-audited; NM: Not Meaningful; Note: The above results are the latest financial results available.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Please refer to Annexure-2

**Covenants of rated instruments/facilities:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

**Complexity level of various instruments rated:** Please refer to Annexure-4

**Lender details:** Please refer to Annexure-5

#### Annexure-1: Details of instruments/facilities

| Name of the Instrument                           | ISIN | Date of Issuance (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|--|------|-------------------------------|-----------------|----------------------------|-----------------------------|---|
| LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG | -    | -                             | -               | -                          | 150.00                      | CARE BBB; Stable / CARE A3+               |
| Term loan-Long term                              | -    | -                             | -               | Proposed                   | 200.00                      | CARE BBB; Stable                          |

#### Annexure-2: Rating history for last three years

| Sr. No. | Name of the Instrument/Bank Facilities           | Current Ratings |                              |                             | Rating History                              |   |   |   |
|---------|--|-----------------|------------------------------|-----------------------------|---|---|---|---|
|         |  | Type*           | Amount Outstanding (₹ crore) | Rating                      | Date(s) and Rating(s) assigned in 2023-2024 | Date(s) and Rating(s) assigned in 2022-2023 | Date(s) and Rating(s) assigned in 2021-2022 | Date(s) and Rating(s) assigned in 2020-2021 |
| 1       | Term loan-Long term                              | LT              | 200.00                       | CARE BBB; Stable            | -   | -   | -   | -   |
| 2       | LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG | LT/ST           | 150.00                       | CARE BBB; Stable / CARE A3+ | -   | -   | -   | -   |

\*Long term/Short term.

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities:** Not applicable

#### Annexure-4: Complexity level of various instruments rated

| Sr. No. | Name of the Instrument                           | Complexity Level |
|---------|--|------------------|
| 1       | LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG | Simple           |
| 2       | Term loan-Long term                              | Simple           |

#### Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

**Note on the complexity levels of the rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

### Contact us

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|--|---|
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