

Switch Mobility Automotive Limited

January 07, 2025

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	1,624.50 (Reduced from 1,727.74)	CARE AA-; Stable	Upgraded from CARE A; Stable
Long-term / short-term bank facilities	453.42 (Reduced from 632.76)	CARE AA-; Stable / CARE A1+	Upgraded from CARE A; Stable / CARE A1
Short-term bank facilities	517.08 (Enhanced from 234.50)	CARE A1+	Upgraded from CARE A1

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in ratings assigned to bank facilities of Switch Mobility Automotive Limited (SMAL) factor in significant improvement in its operating performance in FY24 and improvement in credit profile of its ultimate parent, Ashok Leyland Limited (ALL; rated 'CARE AA+; Stable / CARE A1+'). CARE Ratings Limited (CARE Ratings) continues to favourably factor its parentage of ALL, which has strongly articulated to ensure that SMAL has sufficient funds at all times to meet its debt repayment obligations in a timely manner on every due date considering SMAL's high strategic and economic importance to ALL in the growing Electric Vehicle (EV) segment. ALL has also extended its board resolution backed letter of comfort to SMAL's lenders.

Ratings continue to draw comfort from ALL's extensive experience in the commercial vehicle (CV) manufacturing industry, sizeable equity infusion in SMAL and expected improvement in the company's market share in the electric bus segment in the medium term considering healthy order book and their scheduled delivery timelines.

However, rating strengths are tempered by SMAL's susceptibility to raw material price fluctuations making volatility to its profitability, working capital intensive operations, competitive industry and weak capital structure.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Substantially and significantly scaling up operations, with revenue remaining above ₹2,000 crore with profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin of over 10% on a sustained basis.
- Improvement in credit profile of ALL.

Negative factors

- Lower-than-envisaged growth with sales remaining below ₹700 crore with continued operating losses.
- Deterioration in credit profile of ALL and/or delay in financial support from parent impacting its liquidity.

Analytical approach: For arriving at the rating, CARE Ratings Limited (CARE Ratings) has considered standalone financials of SMAL. CARE Ratings has also factored in the strong operational, financial and managerial linkages with its ultimate parent ALL, which holds 91.26% equity stake in SMAL through its subsidiaries.

Outlook: Stable

CARE Ratings expects SMAL's operating and financial risk profile to improve further with growing order book with stable demand scenario resulting in higher sales volumes with better profitability and continued support from the parent on a need basis.

Detailed description of key rating drivers:

Key strengths

Strong parentage and experienced management team

Being ALL's step-down subsidiary, SMAL benefits from operational, financial, and managerial support. ALL through its subsidiaries infused ₹550 crore of equity capital in SMAL in FY24. ALL also lends managerial expertise to SMAL by having its board members on SMAL's board. SMAL's board of directors consists of representatives from ALL. Dheeraj G Hinduja, Chairman, SMAL, is also the

¹Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Chairman of ALL. Board of directors are backed by an experienced top management team. SMAL is led by Mahesh Babu Subramanian, Chief Executive Officer (CEO), who has extensive experience of over 33 years in the mobility sector.

Extensive experience of ALL in the commercial vehicle (CV) manufacturing industry

As the flagship company of the Hinduja group, ALL is one of the largest manufacturers of medium and heavy commercial vehicles (M&HCV) in India and has significant presence in the light commercial vehicles (LCV) segment. With a long track record of operations of over 75 years, it has built a strong brand image over the years with a diversified product profile consisting of buses, trucks, light vehicles, defence vehicles, engines, and gensets, among others, with vehicle weight ranging from 2.5T to 55T, catering to the LCV-GC, M&HCV-GC, LCV-PC and M&HCV-PC segments.

High strategic and economic importance of SMAL to ALL

SMAL currently caters to the EV bus segment, which has a huge potential leading to high strategic and economic importance of SMAL for AAL. ALL has also strongly articulated to ensure that SMAL has sufficient funds at all times to meet all its debt repayment obligations in a timely manner on every due date. ALL has also extended its board resolution backed letter of comfort for bank facilities of SMAL.

Market share of SMAL in electric bus segment is expected to improve in the medium term

To capitalise emerging trends in the electric vehicle (EV) industry in recent years, ALL through investing in Optare PLC, Switch Mobility Limited, UK and SMAL focused on developing a strong range of electric buses and electric LCVs. Electric LCV was launched in September 2023. To enable SMAL to manufacture EVs, ALL transferred the EV business to SMAL on a slump sale basis, effective October 01, 2021. Post transfer of EV business from ALL, SMAL has been actively participating in tenders for intercity/intracity buses, smart city schemes and is focusing on securing orders from private players. Resultantly, its market share improved to ~19% in FY23 in electric bus segment. However, it declined to ~3% in FY24 due to lesser scheduled deliverables in the period. Its market share is expected to improve in the medium term, considering a healthy order book of 1,520 electric buses as on September 30, 2024.

SMAL's operations included providing Electric Mobility as a Services (eMaaS) under Gross Cost Contract (GCC) model until FY23. In FY24, the company changed its business model where, SMAL will handle original equipment manufacturer (OEM) business, with outright sale of vehicles, while Ohm Global Mobility Private Limited (OHM), a subsidiary of ALL, will handle eMaaS operations. This resulted in higher revenues, improved margins and lower cashflow risk from State Transport Undertakings (STUs) for SMAL despite lower market share. E-bus penetration in India has been improving in the last few years. In FY24, electric bus sales volume grew by ~85% YoY and the penetration of EV buses is likely to remain strong in the medium-term which augurs well for SMAL.

Healthy order book for supply of electric buses

The company has a healthy order book for supplying 1,520 electric buses as on September 30, 2024, of which, the order for 1,100 buses is under GCC model, and rest is on an outright sale basis. These buses are to be supplied over the next 1-2 years. Under GCC model, the company is responsible for supply, operation, and maintenance of electric buses for tenure of the contract, which is ~10-12 years. Significant portion of the company's capex plans in the medium term is backed by its order book position. By September 30, 2024, SMAL had delivered 651 electric buses since incorporation of the company. With the supply of higher number of buses, its scale of operations and profitability is expected to improve going forward.

Improved capital structure with sizeable equity infusion:

SMAL's capital structure and debt coverage metrics improved in FY24 considering equity infusion of ₹550 crore from the parent company turning its tangible net-worth positive in FY24. The financial risk profile is expected to remain comfortable and improve over the medium term as a result of regular equity infusion from promoters to cover losses and fund capex requirements. ALL has been supporting the company through infusion of unsecured loans from time-to-time to execute orders. CARE Ratings believes that such support will be maintained going forward as well.

Liquidity: Strong

SMAL's liquidity is marked strong due to its financial flexibility, being ALL's step-down subsidiary. ALL has been supporting the company through timely equity infusions to execute orders. CARE Ratings believes that such support shall continue going ahead as well. Average utilisation of the company's fund-based and non-fund-based working capital limits for 12-months ended September 2024 remains moderate at 70% and 57%, respectively. The company also had cash and cash equivalents of ₹82.64 crore as on September 30, 2024, while it has very marginal principal debt repayment obligations of ₹4.20 crore in H2FY25.

Key weaknesses

Working capital intensive operations

Average receivables days currently remains high due to its major clientele being STUs. The company is also required to maintain high inventory levels as the delivery of buses are stretched over 1-2 years. To restrict its exposure to raw material price volatility, the company is required to maintain adequate inventory levels. Although average working capital limit utilisation of the company's fund-based and non-fund-based limits remained moderate till now, working capital requirement is expected to increase given that sizeable orders are expected to be executed in the near term. However, upon its fellow subsidiary OHM focusing on eMaaS

business under GCC model, working capital intensity of its operations is expected to reduce going forward, which is visible in reduction in its collection period in the last three years ended FY24.

Large capex plans

Capex of ~₹450 crore and ₹1,050 crore are envisaged in FY25 and FY26, which are expected to be met primarily by equity infusion and rest by borrowings. Majority capex for FY25 and FY26 is for a GCC contract of 950 e-buses, with delivery expected by December 2025 and balance capex is for product development. ALL has been supporting the company through equity infusions from time-to-time to execute its orders. Going forward, its capex requirement will be minimal, once OHM takes care of e-Maas business under GCC model.

Exposure to fluctuation in raw material prices

Key raw materials required for auto OEMs and electric mobility are steel, iron, aluminium, copper, rubber, glass, lithium, cobalt, nickel and platinum. Prices for these raw material prices are highly volatile and passing on increase in prices entirely to end-consumers is challenging, especially in areas where there is intense competition and lower demand. Thus, margins of OEMs are subject to variations in raw material prices. Although contracts with STUs have escalation clauses, given timelines for delivery of vehicles of 1-2 years, profitability margins are susceptible to raw material price volatility.

Competitive and fragmented industry

The company operates in a fragmented electric bus industry dominated by few players. Intense competition in the industry limits pricing abilities of industry players. Currently, industry players are mainly catering to STUs and competition in this segment is increasing. However, the company benefits due to the competitive advantage it derives by being a part of the Hinduja group, having extensive experience in the automotive industry, whereas other players are exposed to adverse geo-political risks due to their dependence on Chinese players for continued technology support. Penetration in the E-Bus segment is expected to improve in 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.

Applicable criteria

[Definition of Default](#)

[Factoring Linkages Parent Sub JV Group](#)

[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

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital goods	Agricultural, commercial & construction vehicles	Commercial vehicles

Incorporated in December 2020, SMAL is ALL's step-down subsidiary set up to manufacture and deal in EVs. SMAL currently manufactures E-Bus and E-LCV at its manufacturing facility at Ennore (Tamil Nadu) with a total installed manufacturing capacity of 2,500 E-Buses per annum and 3,000 E-LCVs per annum. ALL structured its EVs business in bus and LCV segments as a separate business entity called Switch Mobility Limited, UK (SML). SML holds 99.99% in SMAL. To enable SMAL to manufacture EVs, ALL with effective from October 01, 2021, transferred the EV business to SMAL on a slump sale basis for ₹240 crore plus interest and other reimbursements towards expenses and working capital per the business transfer agreement (BTA) entered between ALL and SMAL. To settle this, interest accrued, and working capital adjustments, as on February 01, 2023, SMAL issued non-cumulative non-convertible redeemable preference shares aggregating to ₹301 crore to ALL at par value. Currently, 91.26% stake in SMAL is held by ALL through its subsidiaries.

Brief Financials of SMAL (₹ crore)	FY23 (A)	FY24 (A)	H1FY25 (Prov.)
Total operating income	75.19	425.46	223.15
PBILDT	-50.81	5.22	-19.22
PAT	-108.29	-108.28	-61.95
Overall gearing (times)	NM	3.12	NA
Interest coverage (times)	NM	0.07	NM

A: Audited Prov.: Provisional NM: Not meaningful NA: Not available; Note: these are latest available financial results

Brief Financials of Auto business of ALL (₹ crore) *	FY23	FY24
Total operating income	38,201.88	41,208.91
PBILDT	2,716.99	4,551.53
PAT	868.82	2,060.34
Gross cash accruals	1,688.94	2,872.36
Overall gearing (times)	1.37	1.14
Net debt/ PBILDT (times)	0.68	0.39
Interest coverage (times)	7.52	10.96

*ALL (Consolidated) minus HLFL (Consolidated)

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: 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 and Rating Outlook
Fund-based - LT-Term Loan	-	-	-	28-09-2029	1344.53	CARE AA-; Stable
Fund-based - ST-Cash Credit	-	-	-	-	400.00	CARE A1+
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	-	-	-	-	453.42	CARE AA-; Stable / CARE A1+
Non-fund-based - LT-Bank Guarantee	-	-	-	-	279.97	CARE AA-; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	111.08	CARE A1+
Non-fund-based - ST-Forward Contract	-	-	-	-	6.00	CARE A1+

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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	1344.53	CARE AA-; Stable	1)CARE A; Stable (10-Jul-24)	1)CARE A; Stable (07-Mar-24) 2)CARE A; Stable (11-Apr-23) 3)CARE A; Stable (04-Apr-23)	-	-
2	Non-fund-based - ST-Forward Contract	ST	6.00	CARE A1+	1)CARE A1 (10-Jul-24)	1)CARE A1 (07-Mar-24) 2)CARE A1 (11-Apr-23) 3)CARE A1 (04-Apr-23)	-	-
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	453.42	CARE AA-; Stable / CARE A1+	1)CARE A; Stable / CARE A1 (10-Jul-24)	1)CARE A; Stable / CARE A1 (07-Mar-24)	-	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	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
						2)CARE A; Stable / CARE A1 (11-Apr-23) 3)CARE A; Stable / CARE A1 (04-Apr-23)		
4	Non-fund-based - LT-Bank Guarantee	LT	279.97	CARE AA-; Stable	1)CARE A; Stable (10-Jul-24)	1)CARE A; Stable (07-Mar-24) 2)CARE A; Stable (11-Apr-23)	-	-
5	Non-fund-based - ST-BG/LC	ST	111.08	CARE A1+	1)CARE A1 (10-Jul-24)	1)CARE A1 (07-Mar-24)	-	-
6	Fund-based - ST-Cash Credit	ST	400.00	CARE A1+	1)CARE A1 (10-Jul-24)	1)CARE A1 (07-Mar-24)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - ST-Cash Credit	Simple
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
4	Non-fund-based - LT-Bank Guarantee	Simple
5	Non-fund-based - ST-BG/LC	Simple
6	Non-fund-based - ST-Forward Contract	Simple

Annexure-5: Lender details

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

Note on complexity levels of 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.

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About us:

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