December 26, 2022

Rehla-Garhwa Highways Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Term Loan	298.00	298.00	[ICRA]BBB+ (Stable); reaffirmed
Total	**298.00**	**298.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action for Rehla-Garhwa Highways Private Limited (RGHPL) takes into account the financial profile and track record of its sponsor and engineering, procurement and construction (EPC) contractor – Shivalaya Construction Company Private Limited (SCCPL). Further, SCCPL has provided undertaking towards cost overrun during the construction phase, any shortfall in operations and maintenance (O&M) expenses and corporate guarantee to meet the shortfall in debt servicing. The rating favourably factors in the inherent benefits of the hybrid-annuity project including upfront availability of right of way (RoW)[1], automatic de-scoping of RoW pending beyond 180 days from the appointed date, inflation-linked[2] revisions to the bid project cost during the construction period. It also notes the relatively lower equity mobilisation risk with 40% of the bid project cost to be funded by the authority during the construction period in the form of grant. The rating positively considers the credit support provided by the structural features of the debt, including the presence of escrow, cash flow waterfall mechanism, provision for debt service reserve (DSR) to be created out of the first four annuities and restricted payment clause with a minimum DSCR of 1.1 times. The rating also notes the stable revenue stream post commissioning with 60% of the inflation-adjusted bid project cost being paid out as annuity, along with interest at bank rate plus 300 bps and the inflation-adjusted O&M cost bid over the 15-year operations period by the project owner, National Highways Authority of India [NHAI, rated [ICRA]AAA(Stable)], which is a strong counterparty.

The rating is, however, constrained by the execution risks involved in the under-construction projects including time and cost overruns. The appointed date for the project is received on October 07, 2021. So far, the project execution is running ahead of its scheduled timelines, which mitigates the risk to an extent. Further, the risk is mitigated, to an extent, by the fixed-price, fixed-time contract and SCCPL's strong project execution capabilities. The company's ability to commission the project in a timely manner and within the budgeted costs would remain important from the credit perspective. RGHPL is also exposed to equity mobilisation as the sponsor has yet to infuse part of the equity (Rs. 9.9 crore or 12%) as on December 16, 2022. However, given that majority of equity has been infused and SCCPL's adequate financial risk profile provide comfort. Post commissioning, the company will have to undertake O&M of the project stretch as per the concession agreement to avoid any deductions from annuities. Any significant deductions from annuities or increase in routine and major maintenance (MM) from the budgeted level could impact its debt servicing coverage ratio. ICRA has noted that the debt sanction terms do not envisage creation and maintenance of major maintenance reserve. However, ICRA is given to understand that the company will be maintaining the requisite reserves. ICRA's rating also factors in the exposure of RGHPL's cash flows to the spread between the interest earned on the outstanding annuities, which is linked to the Bank Rate of the Reserve Bank of India (RBI), and the interest rate on the project loans, which is linked to lender's MCLR. Further, RGHPL's cash flows are exposed to inflation risk

[1] *At least 80% prior to appointed date*

[2] *Based on annual change in price index multiple (PMI) from the base year – PMI is the weighted average of Wholesale Price Index (WPI) and Consumer Price Index (CPI) (IW) in the ratio of 70:30*

as O&M receipts, though linked to inflation index (70% WPI and 30% CPI), may not be adequate to compensate for the actual increase in O&M/periodic maintenance expenses.

The Stable outlook on the rating reflects ICRA's opinion that RGHPL will benefit from the strong execution capabilities and financial profile of the sponsor and EPC contractor—SCCPL.

Key rating drivers and their description

Credit strengths

Established track record and financial profile of the sponsor and EPC contractor – RGHPL is a subsidiary of SCCPL, which has vast experience in executing road construction projects. SCCPL is the EPC contractor for executing the project, which provides comfort, given its track record of project execution within the budgeted time and cost. The total estimated project cost of Rs. 684.6 crore is planned to be funded by the NHAI's grant of Rs. 304.0 crore, external debt of Rs. 297.9 crore and promoter contribution/equity of Rs. 82.7 crore. RGHPL is exposed to equity mobilisation risk to the extent of the pending equity (~12%), which is yet to be infused as of December 2022. While SCCPL's financial profile is adequate to meet its equity commitment in the project, which is required to be infused over the construction period, it has sizeable equity commitment towards other under-implementation hybrid annuity model (HAM) projects.

Lower inherent risks in HAM projects from NHAI – The inherent benefits of the HAM project includes upfront availability of RoW, de-scoping of RoW pending beyond 180 days from the appointed date, inflation-linked revisions to the bid project cost during the construction period. Moreover, it faces relatively lower equity mobilisation risk with 40% of the bid project cost to be funded by the authority during the construction period through a grant. Stable revenue stream post commissioning with 60% of the inflation-adjusted bid project cost being paid out as annuity, along with interest at the bank rate plus 300 bps, and the inflation-adjusted O&M cost bid over the 15-year operations period by the NHAI, which is a strong counterparty, provide comfort.

Healthy coverage indicators and presence of structural features – Once operational, RGHPL is expected to have healthy debt coverage indicators. This provides the special purpose vehicle (SPV) adequate cushion to withstand any adverse movement in the bank rate and inflation to a major extent. The credit profile is supported by the undertaking towards cost overrun during the construction phase, any shortfall in O&M expenses and corporate guarantee to meet any shortfall in debt servicing. Further, the presence of structural features of the debt, including the presence of escrow, cash flow waterfall mechanism, provision for DSR to be created out of the first four annuities and restricted payment clause with a minimum DSCR of 1.1 times also provide comfort.

Credit challenges

Execution risk related to project under construction – The appointed date for the project is received on October 07, 2021. As per the independent engineering (IE) report, the construction activity is running ahead of its scheduled timeline. Nevertheless, the company is exposed to residual project execution risks. However, the risk is mitigated, to an extent, by the fixed-price, fixed-time contract and SCCPL's strong project execution capabilities. Its ability to commission the project in a timely manner and within the budgeted costs would remain important from the credit perspective.

Project cash flows and returns exposed to interest rate and inflation risks – The project's cash flows and returns are exposed to the interest rate risk and are dependent on the spread between the RBI's Bank Rate and the interest rate charged by lenders. The interest on the outstanding annuities from the NHAI is linked to the RBI's Bank Rate, while the interest rate charged by lenders is linked to their respective MCLR. Further, RGHPL's cash flows are exposed to inflation risk as O&M receipts, though linked to inflation (70% WPI and 30% CPI), may not be adequate to compensate for the increase in O&M/periodic maintenance expenses.

Undertaking O&M and MM as per concession requirement – Post commissioning, the company will have to undertake O&M of the project stretch as per the concession agreement to avoid any deductions from annuities. Any significant deductions from annuities or increase in routine and MM expenses from the budgeted level could impact its DSCR. Further, the rating is constrained by the absence of major maintenance reserve as a structural feature. However, ICRA is given to understand that the company will be maintaining the requisite cash flows in the SPV.

Liquidity position: Adequate

The liquidity position is supported by an undrawn term loan, grants receivable from the NHAI and equity infusion from SCCPL. The total estimated project cost of Rs. 684.6 crore is planned to be funded by the NHAI's grant of Rs. 304.0 crore, external debt of Rs. 297.9 crore and promoter contribution/equity of Rs. 82.7 crore.

Rating sensitivities

Positive factors – The rating could be upgraded if the project achieves PCOD/COD within the expected timelines and budgeted costs, or if there is an improvement in the sponsor's credit profile.

Negative factors – Negative pressure on the rating could arise if the project progress is delayed, leading to significant time and cost overruns, or if there is a deterioration in the sponsor's credit profile, or if delayed receipt of grant or equity infusion results in increased funding risks for the project.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Roads - Hybrid Annuity
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

RGHPL is an SPV formed in November 2020 by SCCPL for undertaking a road project awarded by the NHAI. The project involves four-laning of Rehla-Garhwa Bypass, on the National Highway-75 (NH-75), in Jharkhand, on a HAM basis. The concession agreement was signed on December 18, 2020, with an appointed date of October 07, 2021. The construction period for the project is two years from the appointed date, and the operations period is 15 years from the commercial operations date (COD).

The total length of the project is 22.73 km - starting from the existing Km 196+870 (Sankha Village) to Km 219+600 (Khajuri Village). The total estimated project cost of Rs. 684.6 crore is planned to be funded by the NHAI's grant of Rs. 304.0 crore, external debt of Rs. 297.86 crore and equity of Rs. 82.74 crore. As of the IE report (October 2022), ~91% of encumbrance-free RoW was made available by the NHAI.

Key financial indicators (audited)

Key financial indicators are not applicable as RGHPL is a project-stage company.

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 on Dec 16, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Dec 26, 2022	Sep 08, 2021	-	-
1	**Long-term Term Loan**	Long term	298.00	202.64	**[ICRA]BBB+ (Stable)**	**[ICRA]BBB+ (Stable)**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Term Loan	Simple

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 Term Loan**	June 2021	-	FY2037	298.0	[ICRA]BBB+(Stable)

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis: Not Applicable

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Ashish Modani
+91 20 6606 9912
ashish.modani@icraindia.com

Abhishek Gupta
+91 124 4545 863
abhishek.gupta@icraindia.com

Vaibhav Jain
+91 124 4545 868
vaibhav.jain@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches