

April 25, 2023

RCCL Srikanche Expressway Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	300.00	685.71	[ICRA]BBB(Stable); Reaffirmed
Proposed term loans	385.71	-	-
Bank guarantee	47.40	47.40	[ICRA]BBB(Stable); Reaffirmed
Total	733.11	733.11	

*Instrument details are provided in Annexure I

Rationale

The rating reaffirmation for RCCL Srikanche Expressway Private Limited (RSEPL) factors in the satisfactory progress of the project, wherein the first project milestone is achieved ahead of the schedule as per the concession agreement with the National Highways Authority of India [NHAI, rated [ICRA]AAA(Stable)] and receipt of three payment milestone grants in a timely manner. The rating derives comfort from the operational track record of its sponsor and engineering, procurement, and construction (EPC) contractor – Ramalingam Construction Company Private Limited (RCCPL) in executing road projects. ICRA notes the strong linkages with the sponsor, RCCPL, in the form of undertaking of cost overruns during the construction phase, shortfall in operations and maintenance (O&M) expenses during the operations period, along with unconditional and irrevocable corporate guarantee for RSEPL's debt.

The rating favourably factors in the inherent benefits of the hybrid annuity model (HAM) nature of the project, including upfront availability of right of way (RoW), automatic de-scoping of RoW pending beyond 180 days from the appointed date, inflation-linked revisions to the bid project cost (BPC) during the construction period. The project has a relatively moderate funding risk with 40% of the BPC to be funded by the authority during the construction period in the form of grants. The rating notes the stable revenue stream post commissioning of the project with 60% of the inflation-adjusted BPC being paid out as annuity, along with interest at an average of one-year MCLR of the top five scheduled commercial banks + 1.25%. The rating considers the inflation-adjusted O&M cost bid over the 15-year operations period by the project owner, NHAI, which is a strong counterparty. The credit profile is supported by the comfortable projected debt service coverage ratios (DSCR) during the debt tenure and structural features of the debt, including the presence of escrow, a cash flow waterfall mechanism, provision for creation of reserves and a restricted payment clause with a minimum DSCR of 1.15 times. The provision for reserves includes a debt service reserve account (DSRA) equivalent to six months' principal as well as interest and a major maintenance reserve (MMR).

The rating is, however, constrained by execution risks in under-construction projects, including time and cost overruns. The risk is mitigated to an extent by the established track record of the EPC contractor, RCCPL, in timely completion of projects. The company's ability to commission the project within the stipulated time and budgeted costs would remain important from the credit perspective. The total estimated project cost of Rs. 1,522.53 crore is planned to be funded by NHAI's grant of Rs. 632.0 crore, external debt of Rs. 685.71 crore and promoters' contribution of Rs. 204.82 crore. The promoters infused Rs. 102.98 crore as on March 31, 2023 and Rs. 60 crore is likely to be infused in FY2024 with the balance to be infused in FY2025. However, any slowdown in execution of the existing order book by RCCPL is expected to impact its revenues and cash flows. Further, the company has availed Rs. 158 crore of Mobilisation advance (MA) from the NHAI and paid Rs. 142.17 crore to the EPC contractor. The MA is adjusted in the grant payments received from the authority. As on March 2023, NHAI has recovered Rs. 59.25 crore from the grant payments and released Rs. 65.17 crore value of bank guarantee. Post-commissioning, RSEPL will have to undertake O&M of the project stretch as per the concession agreement to avoid any deduction from annuities. Any

significant deduction from annuities or increase in routine and major maintenance (MM) from the budgeted level could impact the company's DSCR. RSEPL's cash flows are exposed to inflation risks as O&M receipts, though linked to the inflation index (70% WPI and 30% CPI), may not be adequate to compensate for the actual increase in O&M and periodic maintenance expenses.

The Stable outlook on the rating reflects ICRA's opinion that RSEPL will benefit from the strong execution capabilities of sponsor and EPC contractor, RCCPL.

Key rating drivers and their description

Credit strengths

Low inherent risks in HAM projects from NHAI – The inherent benefits of the HAM project include upfront availability of RoW, automatic de-scoping of RoW pending beyond 180 days from the appointed date and inflation-linked revisions to BPC during the construction period. It faces relatively lower equity mobilisation risk with 40% of the BPC to be funded by the authority during the construction period in the form of a grant. A stable revenue stream post commissioning of the project with 60% of the inflation-adjusted BPC being paid out as annuity, along with interest at an average of one-year MCLR of the top five scheduled commercial banks + 1.25% offers comfort. Additionally, the project has inflation-adjusted O&M cost bid over the 15-year operations period by the project owner, NHAI, which is a strong counterparty.

Track record of sponsor in executing BOT projects – The rating takes comfort from the operational track record of its sponsor and EPC contractor, RCCPL, in executing road projects. RCCPL had completed two Build-Operate-Transfer (BOT) projects, Yelahanka - AP Border Tollways Private Limited and RCCL Expressway Private Limited (REPL, rated [ICRA]BBB+(Stable)), wherein REPL has achieved completion certificate 180 days ahead of the scheduled date. Strong linkages with the sponsor, RCCPL, in the form of an undertaking for cost overruns during the construction phase, shortfall in O&M expenses during the operations period, along with unconditional and irrevocable corporate guarantee for RSEPL's debt provide strength to the credit profile.

Comfortable projected debt coverage indicators for the project – The project is expected to achieve the commercial operations date (COD) within two years from the appointed date. If the overall project cost remains within the budgeted level, once operational, RSEPL is likely to have healthy debt coverage indicators. The credit profile is supported by structural features of the debt, including the presence of escrow, a cash flow waterfall mechanism, provision for the creation of reserves and a restricted payment clause with a minimum DSCR of 1.15 times. The provision for reserves includes a DSRA equivalent to six months' principal and interest and an MMR.

Credit challenges

Execution risk due to under-construction stage of the project – The company is exposed to execution risks in under-construction projects, including time and cost overruns. The financial closure for the project has been obtained and it achieved appointed date on July 11, 2022. However, the risk is mitigated to an extent by the established track record of the EPC contractor, RCCPL, in timely completion of projects. RSEPL's ability to commission the project within the stipulated time and budgeted costs would remain important from the credit perspective.

Equity mobilisation risk – The total estimated project cost of Rs. 1,522.53 crore is planned to be funded by NHAI's grant of Rs. 632.0 crore, external debt of Rs. 685.71 crore and promoters' contribution/equity of Rs. 204.82 crore. The promoters infused Rs. 102.98 crore as on March 31, 2023 and Rs. 60 crore is likely to be infused in FY2024 with the rest in FY2025. However, any slowdown in execution of the existing order book is expected to impact RCCPL's revenues and cash flows, which could ultimately result in equity mobilisation risk and remains a key rating monitorable.

Undertaking O&M as per concession requirement, cash flows and returns exposed to inflation risks – Post-commissioning, the company will have to undertake the O&M of the project stretch as per the Concession Agreement to avoid any deductions from annuities. Any significant deduction from annuities or increase in routine and MM expenses from the budgeted level

could impact its DSCR. RSEPL's cash flows are exposed to inflation risks as O&M receipts, though linked to inflation (70% WPI and 30% CPI), may not be adequate to compensate for the increase in the O&M/periodic maintenance expenses. Hence, adequate and within budgeted O&M expenses will be a key rating sensitivity during the operations stage.

Liquidity position: Adequate

RSEPL's liquidity position is adequate, with the pending project cost of Rs. 1,178.53 crore as on February 23, 2023 supported by undrawn sanctioned term loans of Rs. 685.71 crore, balance equity infusion of Rs. 101.84 crore from RCCPL and timely receipt of grants from the NHAI.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the project achieves COD without any time and cost overruns and/or if there is an improvement in the credit profile of the sponsor.

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

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Roads – Hybrid Annuity
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the company's standalone financial profile

About the company

RSEPL is a special purpose vehicle (SPV) incorporated in September 2021 by Ramalingam Construction Company Private Limited (RCCPL) to undertake the design, build, operate and transfer (DBOT) of 31.705 km road stretch on hybrid annuity basis under concession from the NHAI. The stretch involves construction of the four-lane Bangalore Chennai Expressway from Ch. 230.000 to Ch. 261.705 (Kancheपुरam to Sriperumbudur section in Tamil Nadu). The BPC is Rs. 1,580 crore, with the first year O&M cost estimated at Rs. 3 crore. The SPV received the appointed date on July 11, 2022.

Key financial indicators

Key financial indicators are not applicable as RSEPL 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	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Apr 25, 2023	Feb 24, 2022	-	-
1	Term loans	685.71	0.0*	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-
2	Proposed term loans	-	-	-	[ICRA]BBB (Stable)	-	-
3	Bank guarantee	47.40	NA	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-

*Yet to be disbursed

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loan	Simple
Bank guarantee	Very 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	Term loans	January 2022	9%	August 2037	685.71	[ICRA]BBB (Stable)
NA	Bank guarantee	-	-	-	47.40	[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

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