January 07, 2022

Rajiv Chowk-Sohna Highway Private Limited: Rating of [ICRA]A- (Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/Term Loan	337.80	[ICRA]A- (Stable); assigned
Total	**337.80**	

**Instrument details are provided in Annexure-1*

Rationale

The rating assigned to Rajiv Chowk-Sohna Highway Private Limited (RCSHPL) derives comfort from the strong financial profile and operational track record of its sponsor and engineering, procurement, and construction (EPC) contractor – Oriental Structural Engineers Private Limited (OSEPL). Further, OSEPL has provided undertaking for the cost overrun during the construction phase, any shortfall in operations and maintenance (O&M) expenses and corporate guarantee to meet the shortfall in the event of termination.

The rating favourably factors in the inherent benefits of the hybrid-annuity based nature of the project, including upfront availability of right of way, automatic de-scoping of right of way (RoW) pending beyond 180 days from the appointed date, inflation-linked[1] revisions to bid the project cost during the construction period and a relatively moderate funding risk with 40% of the bid project cost to be funded by the authority during the construction period in the form of grants.

The rating positively considers the credit support provided by the 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 1.16 times. The provision for reserves includes a debt service reserve account (DSRA) equivalent to six months' principal and interest (to be created from the first three semi-annual annuities), a major maintenance reserve (MMR) and reserves to meet regular O&M and interest obligations till the next scheduled annuity.

The rating also factors in the stable revenue stream expected post the commissioning of the project with 60% of the inflation-adjusted bid project cost (BPC) to be paid out as annuity, along with interest and the inflation-adjusted operations and maintenance (O&M) cost (linked to bid O&M) over the 15-year operations period by the project owner, the National Highways Authority of India [NHAI, rated [ICRA]AAA(Stable)], which is a strong counterparty.

The rating, however, is constrained by the delay in project execution caused by various force majeure events such as the outbreak of the Covid-19 pandemic, construction ban in the national capital region (NCR region) due to pollution (NGT Ban, National Green Tribunal ban) along with the non-availability of RoW during the initial phases of the project. Besides, the construction was also temporarily impacted owing to the collapse of an under-construction elevated structure at the project site in August 2020. The scheduled commercial operations date for the project was July 30, 2021, and the company has sought an extension of timeline (EoT) of 328 days (till June 2022). The NHAI has recently, in December 2021, approved an interim EoT of 181 days (91 days on account of force majeure due to NGT ban on construction activities in the NCR region and 90 days of Covid-19 pandemic in FY2021). Subsequently, the company has requested for higher EoT, receipt of which will be important to complete the project as per the revised project timelines and without any major penalty/deductions and will remain a key credit monitorable.

[1] *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*

The company is exposed to the residual execution risks, including time and cost overruns. Till November-2021, the project has achieved 70% physical progress and the company expects to achieve the third milestone of 75% progress by January 2022. Nevertheless, the risk is mitigated, to an extent, by the fixed price nature of the EPC contract that the company has entered with its sponsor OSEPL, and the strong project execution capabilities of OSEPL. Besides, the availability of sufficient buffer in its interest during construction (IDC component), contingency and price index multiple (PIM) related escalation on the grants from the NHAI is likely to aid in meeting the cost escalations, if any, during the project execution.

The rating factors in the exposure of the project's cash flows and returns to the spread between the interest earned on the outstanding annuities linked to the bank rate of the Reserve Bank of India (RBI) and the interest rate on the project loan. Post-commissioning, the company will have to undertake an 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 debt servicing coverage ratio. RCSHPL'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/periodic maintenance expenses.

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

Key rating drivers and their description

Credit strengths

Established track record and financial profile of the sponsor and EPC contractor – RCSHPL is a subsidiary of OSEPL, which has a long experience in the road construction segment and has been executing road projects since 1971. OSEPL is also the EPC contractor executing this project and the contract is proposed to be on a fixed-price, fixed-time basis, which provides comfort, given its track record of project execution within the budgeted time and cost. OSEPL has also provided undertaking for cost overrun during the construction phase, any shortfall in O&M expenses and corporate guarantee to meet the shortfall in the event of termination. Due to these factors, RCSHPL has a strong linkage with OSEPL. OSEPL has a strong financial profile which is also supported by a regular stream of distribution from Oriental Infratrust (OSEPL and its subsidiary Oriental Tollway Pvt Ltd together hold 60% stake in Oriental Infratrust).

Lower inherent risks in HAM projects from NHAI – The inherent benefits of the hybrid annuity-based nature of the project include an upfront availability of right of way (RoW), automatic de-scoping of RoW pending beyond 180 days from the appointed date and inflation-linked revisions to bid project cost during the construction period. Moreover, it faces a 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. A stable revenue stream post the commissioning of the project 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 operations and maintenance (O&M) cost bid over the 15-year operations period by the NHAI, provides comfort.

Credit challenges

Slower than initially envisaged project execution and EoT approval from NHAI partially pending – The appointed date for the project was February 01, 2019, and the construction period was 910 days (SCOD – July 30, 2021). However, as of November 2021, the company had achieved only around ~70% of the physical progress. The total cost incurred till November 2021 was Rs. 427.1 crore (out of the total project cost of Rs. 705.10 crore) and was funded through Rs. 178.4 crore of debt, Rs. 173.3 crore of grant from NHAI, Rs. 57.2 crore of equity and Rs. 18.2 crore of escalation on grant from NHAI. The company has been facing continued delay in its project execution owing to varied factors such as non-availability of RoW during the initial stages of execution, delays caused by the Covid-19 pandemic (in 2020) and delays caused by the construction ban in the NCR region (2019-20). The company had applied for a 328-day EoT in February 2021 and have so far received an interim EoT approval from the NHAI for 181 days (of which 91 days is for delays caused by the construction ban and 90 days for the first wave of Covid-19). Besides, in August 2020, the collapse of an under-construction elevated structure at the project site also temporarily stalled the execution. After the incident, all approved drawings were sent for a third-party review, all the existing approved SOPs were re-examined and revised, which slowed down the execution. Going forward, the company expects to achieve third milestone (75% of physical progress) by January 2022 and to complete the entire project by June 2022. The principal repayments on the term loans have also been accordingly rescheduled, considering the revised SCOD as July 30, 2022. Timely receipt of the EoT approval for the pending period from the NHAI, without any penalties or major deductions from annuity, remains a key credit monitorable.

In terms of the impact of any cost overrun due to the delayed project execution, the company is expected to be safeguarded by the fixed price contract that it has entered with OSEPL. Besides, the PIM-linked escalations on the NHAI grant (~Rs. 27.0 crore as of November 2021), the availability of contingency of Rs. 15.9 crore factored in the project cost and the availability of sufficient buffer in its IDC (Rs. 12.4 crore utilised as of December 2021, out of the Rs. 30.3 crore) is likely to act as cushion during the rest of the execution period. Given its strong linkages with the parent entity, ICRA expects OSEPL will provide timely financial support in case of short-term financial exigencies, if required.

Project cash flows and returns exposed to interest rate and inflation risk – The project's cash flows and returns are exposed to 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 the lenders is linked to their respective MCLR. While the spread between the RBI's bank rate and bank's MCLR has widened since the commencement of project construction, the savings on the project cost has neutralised the impact to a large extent. Further, RCSHPL'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 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 major maintenance (MM) from the budgeted level could impact its debt servicing coverage ratio. RCSHPL's cash flows are exposed to inflation risks as the 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 will be a key rating sensitivity during the operations stage.

Liquidity position: Adequate

As the project is under construction, the company does not maintain any significant liquidity. However, the liquidity position is supported by undrawn sanctioned line of credit, grants receivable from the NHAI and equity infusion from OSEPL.

Rating sensitivities

Positive factors – The rating could be upgraded if the company receives pending extension of timeline for the project in line with the expected completion schedule and achieves significant progress without time or cost overrun (factoring in the extension of timeline). The rating can also be upgraded if the credit profile of the sponsor improves.

Negative factors – Negative pressure on the rating could arise if the project's progress is delayed further or if the authority doesn't approve the extension of timeline or imposes sizeable penalties which impacts the project cost and return indicators. The rating can also come under pressure if the credit profile of the sponsor deteriorates, or if the 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 Rating Approach - Implicit parent or group support
Parent/Group Support	Parent/Group Company: Oriental Structural Engineers Private Limited (OSEPL) The rating assigned to RCSHPL factors in the likelihood of its parent, OSEPL, extending financial support to it because of undertaking provided by OSEPL and close operational linkages; ICRA also expects OSEPL to be willing to extend financial support to RCSHPL out of its need to protect its reputation from the consequences of a group entity's distress
Consolidation/Standalone	Standalone

About the company

Rajiv Chowk-Sohna Highway Private Limited is an SPV incorporated in March 2018, by the Oriental Structural Engineers Pvt Ltd (OSEPL) to undertake the design, build, operate and transfer (DBOT) of an 8.942 km road stretch on hybrid annuity basis under concession by the National Highways Authority of India.

The project entails six-laning and strengthening of NH-248A from existing km. 2+740 (Rajiv Chowk) to km. 11+682 in Gurugram under NHDP Phase-IV on hybrid annuity mode in Haryana. The total cost for the project is Rs. 705.1 crore, which is being funded through promoters' contribution of Rs. 84.50 crore, debt (from IndusInd Bank and Indian Bank) of Rs. 337.8 crore and the rest Rs. 282.8 crore from the construction grant from NHAI.

The appointed date for the project was February 01, 2019, and it was scheduled to be completed within 910 days from the appointed date (i.e., July 30, 2021). The project had witnessed delays initially due to encroachment on the right of way (RoW) and ensuing litigation, and subsequently due to Covid-19 related disruption and ban on construction activities in the NCR region in the winter season (as per court decision to reduce air pollution). Further, there was an accident at the project site in August 2020, which also impacted project execution by a few days. Due to these factors, against the scheduled COD for the project of July 30, 2021, the project is only about 70% completed till November 2021. The company had applied for an extension of time (EoT) of 328 days in February 2021. The NHAI has recently (on December 22, 2021) approved an interim extension of 181 days (90 days considering the delays caused by the Covid-19 pandemic in 2020 and 91 days of delay due to the ban on construction activities in the NCR region during 2019-20).

Key financial indicators

Key financial indicators are not applicable as RCSHPL 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 (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on November 30, 2021 (Rs. crore)	Date & Rating on	FY2021	FY2020	FY2019
					January 07, 2022	-	-	-
1	Fund-based facility – Term Loan	Long term	337.80	178.40	[ICRA]A- (Stable)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based facility – 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No./Lender Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
IndusInd Bank	Fund-based facility – Term Loan	January 2019	NA	*	237.80	[ICRA]A- (Stable)
Indian Bank	Fund-based facility – Term Loan	January 2019	NA	*	100.00	[ICRA]A- (Stable)

Source: *RCSHPL and ICRA; *linked with the COD of the project*

Annexure-2: 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 4545863
abhishek.gupta@icraindia.com

Vinodhini M
+91 44 4297 4313
vinodhini.m@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@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.

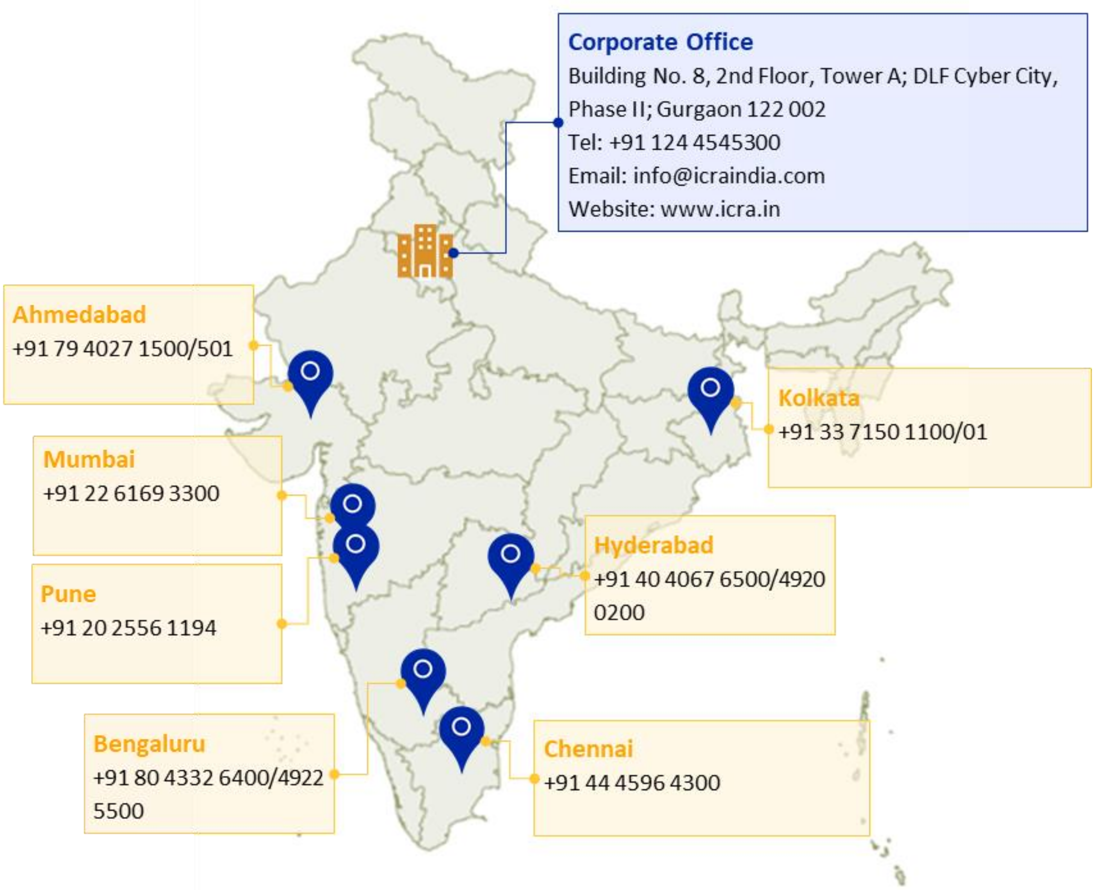
For more information, visit www.icra.in

ICRA Limited

Registered Office

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

Branches



ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.