

September 07, 2022

## Rajiv Chowk-Sohna Highway Private Limited: Rating upgraded to [ICRA]AA-(Stable)

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	337.80	337.80	[ICRA]AA-(Stable); Upgraded from [ICRA]A-(Stable)
<b>Total</b>	<b>337.80</b>	<b>337.80</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The upgrade in the rating of Rajiv Chowk-Sohna Highway Private Limited (RCSHPL) positively factors in the achievement of provisional completion certificate (PCOD) by the company w.e.f. June 30, 2022 (achieved 98% completion), which largely eliminates the execution risks (except for the pending punch list items) thereby resulting in a significant improvement in the project's risk profile. Further, the SPV is in the process of creating an upfront Debt Service Reserve (DSR), equivalent to six months of debt servicing obligations (of ~Rs. 21 crore) from the amount over and above the construction grants received from the Authority due to inflation indexation (of ~ Rs 49 crore), which also supports its credit profile.

The rating continues to derive 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, rated [ICRA]AA- (Stable)). The rating also takes comfort from the stable revenue stream, post commissioning, with 60% of the remaining bid project cost (adjusted for inflation through price index multiple) being paid out as annuity over the term of the concession from the project owner and annuity provider, the National Highways Authority of India [NHAI; rated [ICRA]AAA (Stable)], a key Central Government entity responsible for the development and maintenance of India's national highway programme. The rating also factors in the healthy projected debt service coverage ratio during the debt tenure, and the structural features of the debt, including the presence of escrow, a cash flow waterfall mechanism, and provision for the creation of reserves viz. a major maintenance reserve (MMR) and reserves to meet regular O&M and interest obligations till the next scheduled annuity.

The rating, however, is constrained by the uncertainties revolving around the finalised bid project cost and the annuity amount and track record of annuity receipt from the NHAI for this project. Any significant deductions from annuities or increase in routine and major maintenance (MM) from the budgeted level could impact the debt servicing coverage ratio of the company. ICRA also notes exposure of RCSHPL's cash flows to the spread between the interest earned on the outstanding annuities linked to the bank rate of Reserve Bank of India (RBI) and the interest rate payable on the project loan. Further, RCSHPL's cash flows are exposed to inflation risk 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 company plans to enter into a fixed price agreement with OSEPL for O&M of the project. The company will have to undertake O&M of the project stretch as per the concession agreement to avoid any deductions from annuities.

ICRA has noted that the scheduled commercial operations date for the project was July 30, 2021, and the company had sought an extension of timeline (EoT) of 328 days (till June 2022), which was also recommended by the Independent Engineer. However, thus far, the NHAI had approved an interim EoT of 271 days and clarity on balance EoT is awaited. Thus far there were deductions of Rs.2.85 Cr and Rs. 5 Cr in the 3<sup>rd</sup> and 5<sup>th</sup> milestone payments respectively from the NHAI, due to delays in achieving the milestones. However, since the company has received PCOD for the project, no further deductions are expected from future annuity payments and the impact of non-receipt of the balance EoT is not expected to be material from credit perspective.

The Stable outlook on the rating reflects ICRA's opinion that RCSHPL's will exhibit stable cash flows with timely receipts of annuities from the NHAI without any major deductions supported by the strong profile of the counterparty, and healthy profile of the sponsor and O&M contractor—OSEPL.

## Key rating drivers and their description

### Credit strengths

**Operational status of the project** - The project has attained PCOD on June 30, 2022, and thereby eliminating the project execution risk to a major extent. The minor remainder portion of the project along with completion of punch list items is to be completed in the next three months. The first semi-annuity is anticipated to be received in December 2022- January 2023.

**Lower inherent risk in HAM projects from NHAI with low counterparty risk for annuity** – The project is executed under the Hybrid Annuity Model (HAM) wherein 40% of the project cost is funded by the NHAI, and remaining funding needs are fulfilled through a mix of debt and equity which are almost completed on PCOD. Further, there is 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, who has a strong credit profile - rated [ICRA]AAA(Stable).

**Established track record and financial profile of the sponsor and EPC and O&M contractor, OSEPL** – RCSHPL is a subsidiary of OSEPL, rated [ICRA]AA- (Stable), which has a long experience in the road construction segment and has been executing road projects since 1971. OSEPL is also the EPC and O&M contractor for this project, which provides comfort, given its track record of project execution.

**Healthy projected debt coverage indicators and presence of structural features** – RCSHPL is expected to have a healthy debt service coverage ratio with a cumulative DSCR of over 1.3 times during the debt tenure. Further, structural features of the debt, such as the presence of escrow, a cash flow waterfall mechanism, a DSRA equivalent to ensuing six months of debt servicing obligation (in the process of creating) and creation of MMR, presence of reserves to meet regular O&M and interest obligations till the next scheduled annuity, and the cash sweep option also provide comfort.

### Credit challenges

**Ensuring O&M as per concession requirement and risk of deduction from annuity** – RCSHPL's sources of income are the annuity, interest on outstanding annuities and the annual O&M payments from the NHAI. Hence, finalisation of the bid project cost and receipt of first semi-annual annuity (expected to be received by January-2023) without any major deduction will be important. ICRA has also noted that the final EoT is awaited, and any material deduction from annuity would also be monitorable. Further, undertaking regular as well as periodic maintenance of the project as per specifications of the concession agreement will be important for the company to be eligible to get full annuity receipts. A significant increase in expenditure towards regular or periodic maintenance will have a bearing on the DSCR and be a key credit sensitivity. 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. ICRA has noted that the SPV will be entering into a fixed-price O&M and MM contract with its sponsor - OSEPL. Further, as the cash inflows are concentrated, timely receipt of annuity payment is important. However, ICRA has drawn comfort from the gap of 1 months between the scheduled annuity payment date and the debt servicing date, and the presence of DSR to mitigate any short-term cash flow mismatches.

**Project cash flows and returns exposed to spread between RBI's bank rate and the interest rate charges by lenders** – 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. The spread between the RBI's bank rate and bank's MCLR, if widened, could adversely impact the cash flows.

## Liquidity position: Adequate

The company has debt servicing obligations (principal + interest) of Rs. 23.9 crore in FY2023 and its cash flows from operations are expected to be sufficient to meet the debt servicing obligations with a projected cumulative DSCR of ~ 1.3 times. This apart, the company has provision for the DSR (to be created shortly), which provides liquidity cushion.

## Rating sensitivities

**Positive factors** – The rating could be upgraded if there is a track record of timely receipt of semi-annual annuities and O&M payments without any significant deductions.

**Negative factors** – Negative pressure on the rating could arise if there are major deductions or delays in receipt of semi-annual annuities and O&M payments; or if O&M expenses significantly exceed the estimates. The rating can also come under pressure if there is any significant increase in the indebtedness that impacts its coverage indicators.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Impact of Parent or Group Support on an Issuer's Credit Rating</a> <a href="#">Rating Methodology for BOT (Hybrid Annuity Model) Roads</a>
Parent/Group support	NA
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 the 8.942-km road stretch on a hybrid annuity basis under concession by the National Highways Authority of India.

The project entails the six-laning and strengthening of NH-248A from existing kms. 2+740 (Rajiv Chowk) to km. 11+682 in Gurugram under NHDP Phase-IV on the hybrid annuity mode in Haryana. The total cost for the project is Rs. 705.1 crore, which is being funded through the 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 the NHAI.

The appointed date for the project was February 01, 2019, and the appointed date for the project was February 01, 2019, and it received the PCOD on June 30, 2022.

## 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	Type	Amount rated (Rs. crore)	Current rating (FY2023)		Chronology of rating history for the past 3 years			
			Amount outstanding as of June 21, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
								Sep 07, 2022
1 Term loans	Long term	337.80	263.35	[ICRA]AA-(Stable)	[ICRA]A-(Stable)	-	-	

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – 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: [www.icra.in](http://www.icra.in)

## Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based facility – Term Loan	February 2022	NA	FY2036	337.80	[ICRA]AA- (Stable)

Source: RCSHPL and ICRA;

[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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