March 22, 2023

Chikhali -Tarsod Highways Private Limited: Provisional [ICRA]AA(Stable); assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund-based – Term loan	531.60	Provisional [ICRA]AA (Stable); assigned
Total	**531.60**	

Rating in the absence of pending actions/ documents	[ICRA]A+

**Instrument details are provided in Annexure-I*

Note: The table above also captures ICRA's opinion on (a) the rating if the pending actions/ documents are not completed

Rationale

The assigned rating for Chikhali -Tarsod Highways Private Limited (CTHPL) derives comfort from the operational nature of the project with a track record of receipt of the first two semi-annual annuities and the adequate debt coverage metrics. The rating draws strength from the annuity nature of the project, with 60% of the final completion cost to be paid out as semi-annual annuities, along with interest on the residual annuities payable (at bank rate + 3%). Further, CTHPL will receive inflation-adjusted operations and maintenance (O&M) cost bid over the 15-year operations period from the project owner, the National Highways Authority of India [NHAI, rated [ICRA]AAA(Stable)], which is a strong counterparty. Thus far, two semi-annual annuities and O&M payment have been received in a timely manner. ICRA does not expect any material delay in the receipt of the annuities and the availability of a buffer of over 60 days between the annuity due date and the scheduled debt repayment date, which along with the funded debt servicing reserve account (DSRA), mitigates the risk of delay in annuity payments to an extent. While the projected debt coverage indicators for the proposed term loans are adequate with a cumulative debt service coverage ratio (DSCR) of around 1.1 times during the debt tenure, the repo rate linked interest rate for the proposed loan mitigates the interest rate risk to a large extent due to the natural hedge with interest on annuities to be received from the NHAI (linked to RBI's Bank Rate). The debt structure requires creation of various reserves such as Debt Service Reserve (DSR) equivalent to six months of debt servicing obligations, and major maintenance reserve (MMR), which along with the presence of other structural features of the debt, including escrow, cash flow waterfall mechanism, and restricted payment clause with a minimum DSCR of 1.1 times, provides comfort. ICRA notes that the special purpose vehicle (SPV) is a party to the cash flow pooling/ surplus sharing arrangement with other five[1] SPVs of the Actis Long Life Infrastructure Fund (ALLIF), wherein the surplus cash flows at each SPVs will be made available to the other SPVs for meeting any shortfall in debt servicing, DSR and MMR replenishment and O&M shortfall.

CTHPL's cash flows are exposed to inflation risk 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. Any significant deductions from the annuities or increase in routine and major maintenance (MM) from the budgeted level could impact its DSCR. Further, any significant upward revision to the O&M and MM rates impacting CTHPL's cash flows

[1] *Welspun Infrafacility Private Limited (WIPL), Welspun Delhi Meerut Expressway Private Limited (WDMEPL), MBL (CGRG) Road Limited (CGRG), MBL (GSY) Road Limited (GSY) and Welspun Infra Road Private Limited (WIRPL)*

will remain a key monitorable. The debt structure also has credit-rating linked debt acceleration clause, which if materialises, could expose the company to refinancing risk.

The rating assigned is provisional as of now (as denoted by the prefix Provisional before the rating symbol) and is subject to the completion of the documentation of the proposed debt structure including loan agreement and escrow agreement.

The Stable outlook on the rating reflects ICRA's opinion that CTHPL will continue to benefit from the operational status of the project, strong counterparty, adequate debt coverage metrics and presence of structural features.

Key rating drivers and their description

Credit strengths

Operational nature of project – CTHPL achieved the provisional completion certificate (PCC)/PCoD for the project effective on August 25, 2021, against the scheduled commercial operations date (COD) of July 14, 2021. The company completed the balance work with COD as on October 30, 2022.

Annuities nature of project with strong counterparty – The annuity nature of the project eliminates the traffic risk for hybrid annuity model (HAM) road projects. It will receive 30 semi-annual annuities, along with interest on the residual annuities payable (at bank rate + 3%) and inflation-adjusted O&M cost bid over the 15-year operations period from the project owner, the NHAI. Thus far, two semi-annual annuities and O&M payment has been received in a timely manner. It has received the first annuity payment and the O&M payment with a delay of around two months due to procedural reasons and delays in finalising the completion cost. Further, the second annuity was delayed by 33 days, as per the scheduled annuity receipt date. However, ICRA does not expect such delays in the future annuities, as it has achieved COD. There is a gap of over 60 days between the annuity due date and the scheduled debt repayment date, which along with the funded DSRA, mitigates the delay risks in annuity payments to an extent. The increased certainty of cash flows (except for the bank rate, and inflation) from a strong counterparty (NHAI) is a key strength for the company.

Adequate coverage indicators with repo rate linked interest on term debt, and presence of structural features – CTHPL is expected to maintain adequate debt coverage indicators with a cumulative DSCR of around 1.1 times during the debt tenure. This is adequate as the repo rate linked interest rate for the proposed loan mitigates the interest rate risk to a large extent due to the natural hedge with interest on annuities to be received from the NHAI (linked to RBI's Bank Rate). The debt structure mandates creation of various reserves such as DSR equivalent to six months of debt servicing obligations, and MMR. The company's credit support is provided by other structural features of the debt, including escrow, cash flow waterfall mechanism, and restricted payment clause with a minimum DSCR of 1.1 times. Further, ICRA the SPV is a party to the cash flow pooling/ surplus sharing arrangement with other five[2] SPVs of the ALLIF, wherein the surplus cash flows at each SPVs will be made available to the other SPVs for meeting any shortfall in debt servicing.

[2] *Welspun Infrafacility Private Limited (WIPL), Welspun Delhi Meerut Expressway Private Limited (WDMEPL), MBL (CGRG) Road Limited (CGRG), MBL (GSY) Road Limited (GSY) and Welspun Infra Road Private Limited (WIRPL)*

Credit challenges

O&M as per concession requirement and risk of delays or deductions in annuity – CTHPL's sources of income include annuity, interest on outstanding annuities and the annual O&M payments from the NHAI. Any significant deductions from the annuities or increase in routine and MM from the budgeted level could impact its DSCR. While CTHPL will receive O&M payments from NHAI along with annuities, and the same will increase as per inflation (70% WPI and 30% CPI), it may not be adequate to compensate for the actual increase in O&M/periodic maintenance expenses. Further, any significant upward revision to the O&M and MM rates impacting CTHPL's cash flows will remain a key monitorable. While it expects the MM cost to be lower than ICRA's benchmarks due to factors like timely O&M and low commercial traffic density on the project stretch. However, ICRA in its base case scenario has built-in additional cushion against the company's assumptions. The timely receipt of annuity payments without any material deduction is important from the credit perspective. However, the buffer between the annuity due date and the scheduled debt repayment date, along with the DSR, mitigates the risk of any short-term cash flow mismatches.

Liquidity position: Adequate

The cash flow from operations are likely to be sufficient to meet the debt servicing obligations with a cumulative DSCR of around 1.1 times during the tenure of the rated instrument. The company's liquidity position is expected to be supported by the upfront creation of DSRA on or before the first disbursement of the proposed term loan.

Rating sensitivities

Positive factors – ICRA could upgrade CTHPL's ratings if forthcoming annuities are received in a timely manner without any deductions, along with improvement in the cumulative DSCR to above 1.15 times on a sustained basis.

Negative factors – Negative pressure on the rating could arise if there are major deductions or delays in the receipt of semi-annual annuities or O&M payments, or if the operations and maintenance expenses significantly exceed the estimates, or if there is any additional debt availed by the SPV that impacts its coverage indicators. The rating could also come under pressure if there is any non-adherence to the debt structure.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Roads–Hybrid Annuity
Parent/Group support	Not applicable ICRA notes that CTHPL has a cash flow pooling mechanism with other five SPVs (Welspun Delhi Meerut Expressway Private Limited (WDMEPL), MBL (CGRG) Road Limited, MBL (GSY) Road Limited, Welspun Road Infra Private Limited and Welspun Infrafacility Private Limited) of the ALLIF as per which, the surplus cash flows at each SPV will be made available to the other SPVs for meeting any shortfall in debt servicing.
Consolidation/Standalone	The rating is based on the standalone financial profile of the company.

Pending actions/documents required to be completed for conversion of the provisional rating into final

The assigned rating is provisional and would be converted into final upon:

1. Completion of documentation for the debt structure i.e.
    a. Loan/Facility agreement
    b. Escrow agreement

The provisional rating indicates the final rating that is likely to be assigned to the company after the completion of the pending items mentioned above, *ceteris paribus*.

Validity of the provisional rating

In case the borrowing facility to which a provisional rating has been assigned is subsequently availed, the provisional rating would have to be converted into a final rating within 90 days (validity period) from the date of availing the borrowing facilities. If considered appropriate, the validity period may be extended by a further 90 days for converting the provisional rating into final, in circumstances where the rated entity expressly indicates its intention to complete the pending actions/ documents over the near term. In no circumstance shall the validity period be extended beyond 180 days from the date of availing the borrowing facilities. For further details refer to ICRA's Policy on Provisional Ratings available at www.icra.in.

If neither the pending actions/ documents nor the availing of the borrowing facilities is completed after one year of assignment of the provisional rating, ICRA would withdraw the provisional rating. However, the validity period may be extended beyond one year, subject to the conditions outlined in ICRA's Policy on Provisional Ratings available at www.icra.in.

Risks associated with the provisional rating

In case the borrowing facilities are availed, but the pending actions/ documents are not completed by the entity within 90 days (validity period) from the date of availing the borrowing facilities, the provisional rating will be converted into final upon a review of the required actions/ documents to the extent these are completed by the end of the validity period. This implies that the provisional rating may even be revised at the end of the validity period, while being converted into final, to a level commensurate with the rating in the absence of the pending actions/ documents (as disclosed earlier in the rationale). ICRA may consider extending the validity period in accordance with its Policy on Provisional Ratings available at www.icra.in.

About the company

Chikhali-Tarsod Highways Private Limited (CTHPL) is an SPV established to undertake four laning of Chikhali-Tarsod (Package-IIA) section of NH-6 (New NH-53) from Km. 360.000 to Km. 422.700 in Maharashtra to be executed on Design, Build, Operate and Transfer (Hybrid Annuity) basis. The provisional COD of the project was achieved in August 2021 and COD on October 30, 2022. CTHPL is contractually entitled to receive semi-annual payments in March and September every year until the end of the concession period, FY2037.

Key financial indicators (audited)

Not available as it's a project related 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 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021	Date & rating in FY2020
					Mar 22, 2023	-	-	-	-
1	**Fund-based – Term loans**	Long term	531.60	-	Provisional [ICRA]AA (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: 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 - Fund-based – Term Loan**	NA	NA	NA	531.60	Provisional [ICRA]AA (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 45474829
rajeshwar.burla@icraindia.com

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

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

Mrinal Jain
+91 124 4545 845
mrinal.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