

May 09, 2023

## 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]AA-(Stable)
<b>Total</b>	<b>337.80</b>	<b>337.80</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating upgrade for Rajiv Chowk-Sohna Highway Private Limited (RCSHPL) positively factors in the receipt of the first semi-annuity and the final completion certificate (COD) by the company, which eliminates the uncertainties around the quantum of annuity receipts, thereby resulting in a substantial improvement in the project's risk profile. However, there are positive change of scope (COS) works of ~Rs. 141.23 crore, which has been allocated to the company by the National Highways Authority of India (NHAI, rated [ICRA]AAA (Stable)). The same is under implementation stage, which exposes RCSHPL to residual execution risk, though the payment for additional works will be received from NHAI on milestone basis (for which a separate LOA has been issued by NHAI to RCSHPL). There is no impact anticipated on the annuity and operations and maintenance (O&M) receipts from the NHAI. The final COD for the project was received on February 16, 2023 (effective from June 30, 2022), and the first semi-annuity payment was received on January 12, 2023. Further, the special purpose vehicle (SPV) has created an upfront Debt Service Reserve (DSR), equivalent to six months of debt servicing obligations (of ~Rs. 21.8 crore), which supports its credit profile. The rating 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, rated [ICRA]AA (Stable)). The rating 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 NHAI, a key Central Government entity responsible for the development and maintenance of India's national highway programme. The rating factors in the healthy projected debt service coverage ratio (DSCR) 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 strengths are offset by the 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, which are linked to lender's MCLR. 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. ICRA has noted that there was a negative COS in the project, which could impact the upcoming annuities, though the quantum of impact is not expected to be significant. Any major deductions from the annuities or increase in routine and major maintenance (MM) from the budgeted level could impact its DSCR. RCSHPL has entered into a long-term fixed-price O&M and MM contract with OSEPL. Hence, substantial deterioration in the credit profile of the O&M contractor could impact its ability to undertake maintenance and will remain a key monitorable.

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

## Key rating drivers and their description

### Credit strengths

**Operational status of the project with receipt of final COD and first annuity** – RCSHPL achieved the final COD for the project on February 16, 2023 (effective from June 30, 2022), and the first semi-annuity payment was received on January 12, 2023, against the scheduled receipt date of December 31, 2022. The project completion cost has been finalised at ~Rs. 852.64 crore and the future semi-annuities will be based on 60% of the completion cost. However, there are positive COS works of ~Rs. 141 crore, which has been allocated to the company by the NHAI (for which a separate LOA has been issued by NHAI to RCSHPL). More than 50% of the additional works are yet to be executed, which exposes it to execution risks. Nevertheless, the back-to-back arrangement with OSEPL mitigates this risk. The payment for the additional works will be received from NHAI on milestone basis and there is no impact anticipated on the annuity and O&M receipts from NHAI. The finalisation of project completion cost eliminates the execution risk and uncertainty on the annuity amount. Besides, the company received its first semi-annuity, without any major deductions, thereby resulting in a significant change in the project's risk profile.

**Lower inherent risk in HAM projects from NHAI with low counterparty risk for annuity** – The annuity nature of the project eliminates the traffic risk in the hybrid annuity model (HAM) road projects. As per the Concession Agreement, RCSHPL will be receiving 30 semi-annuities starting six months from completion (or provisional completion) totalling to 60% of the final project completion cost, along with interest on the residual annuities payable (at bank rate + 3%), and the inflation-adjusted O&M cost bid over the 15-year operations period from the project owner and authority, NHAI, a key Central Government entity responsible for the development and maintenance of the national highways in the country. High certainty of cash flows (except for the bank rate, and inflation) from a strong counterparty (NHAI) is a key strength for the company.

**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 1.25 times during the debt tenure. This provides the SPV adequate cushion to withstand adverse movement in the bank rate and inflation to a major extent. The credit profile is supported by 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. Further, the presence of restricted payment clause with minimum DSCR of 1.10 times (1.15 times post receipt of second annuity) provides comfort.

### Credit challenges

**Project cash flows and returns exposed to spread between RBI's bank rate and the interest rate charged by lenders** – The project's cash flows and returns are exposed to the interest rate risk and depend 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. 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. However, the risk is mitigated to a major extent by the healthy DSCR, which is expected to withstand adverse movements, if any, in the spread.

**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, undertaking regular as well as periodic maintenance of the project as per specifications of the Concession Agreement will be necessary 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. The SPV has a fixed-price O&M and MM contract with OSEPL. Further, timely receipt of annuity payment is important as the

cash inflows are concentrated. However, ICRA has drawn comfort from the gap of one month between the scheduled annuity payment date and the debt servicing date, and the presence of DSR to mitigate any short-term cash flow mismatches.

### Liquidity position: Adequate

The cash flow from operations are expected to be sufficient to meet the debt servicing obligations with a cumulative DSCR of more than 1.25 times during the tenure of the rated instruments. The company's liquidity position is likely to be supported by the upfront creation of DSRA and gap of one month between the scheduled annuity payment date and the debt servicing date.

### Rating sensitivities

**Positive factors** – The rating could be upgraded if there is a timely track record of receipt of semi-annuities and O&M payments without any significant deductions 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-annuities or O&M payments, or if the O&M expenses significantly exceed the estimates, or if there is any additional debt availed by RCSHPL that materially impacts its coverage indicators, with the cumulative DSCR reducing below 1.2 times. The rating could come under pressure if there is any non-adherence to the debt structure.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology For Roads–Hybrid Annuity</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

### About the company

Rajiv Chowk-Sohna Highway Private Limited is a special purpose vehicle (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 HAM basis under concession from the NHAI.

The project entails six laning and strengthening of NH-248A from the existing km. 2+740 (Rajiv Chowk) to km. 11+682 in Gurugram under NHDP Phase-IV on HAM in Haryana. The appointed date for the project was February 01, 2019, and it received the final COD effective from June 30, 2022.

### Key financial indicators (audited)

Standalone	FY2021	FY2022
Operating income	129.5	342.7
PAT	1.7	9.3
OPBDIT/OI	6.9%	7.7%
PAT/OI	1.3%	2.7%
Total outside liabilities/Tangible net worth (times)	3.0	3.4
Total debt/OPBDIT (times)	7.6	8.5
Interest coverage (times)	1.6	1.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

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 FY2023	Date & rating in FY2022	Date & rating in FY2022	
				May 09, 2023	Sep 07, 2022	Jan 07, 2022	-	
2	Term loans	Long term	337.80	318.75	[ICRA]AA(Stable)	[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: [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	February 2022	NA	FY2036	337.80	[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**

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