October 23, 2023

Baharampore-Farakka Highways Limited: Rating reaffirmed and rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based / Term loan	745.0	750.0	Provisional [ICRA] AA-(Stable); reaffirmed/assigned for enhanced amount
Total	**745.0**	**750.0**	

**Instrument details are provided in Annexure-I*

Rating in absence on Pending Actions/Document	[ICRA]A

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

Rationale

ICRA has reaffirmed/assigned a long-term rating of Provisional [ICRA] AA- (Stable) to Baharampore-Farakka Highways Limited (BFHL). The assigned rating is provisional (as denoted by the prefix 'Provisional' before the rating symbol) and would be converted to final on the finalisation of the escrow agreement[1], facility agreement and debt structure, as per the proposed terms. ICRA would keep the rating under review, in line with its published methodologies/policies.

The rating considers BFHL's favourable location, along the busy Kolkata-Siliguri corridor (part of National Highway 12) being a part of the primary connection for the north-eastern (NE) region with south and central parts of the country through NH-12. The project has a nine-year track record of toll collection for ~89% of the stretch and has recorded a healthy compounded annual growth rate (CAGR) in traffic of ~7.1% during FY2015-FY2023. The rating favourably takes into account the ~100% increase in toll rates at toll plaza (TP) 1 expected in Q3 FY2024, post completion of the balance structure across Baharampore Bypass. Timely completion of the project stretch and the consequent toll rate hike remains important from the credit perspective, as it will mitigate the execution risk and lends visibility to the future revenue. The rating factors in the adequate visibility of funds for the completion of the pending works and the upcoming major maintenance (MM) exercise. The rating takes comfort from BFHL's projected debt service cover with a cumulative debt servicing coverage ratio (DSCR) of more than 1.65 times as per ICRA's base case estimates, along with the flexibility arising out of two-year tail period. The long debt tenure[2], along with the presence of structural features like presence of three months of debt service reserve (DSR) to be created upfront, restricted payment clause with a minimum DSCR of 1.10 times, creation of major maintenance reserves (MMR), provide credit support. ICRA notes that the sponsor viz. Cube Highways and Infrastructure V Pte. Ltd (CH5, part of the Cube Highways Group) has provided an undertaking for meeting any shortfall in the cost overruns in the residual construction cost and scheduled MM exercise. The rating also favourably considers the reputed sponsor, CH5 and its experience in operation of road assets in India.

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[1]*alternatively, until the execution of such escrow agreement, the finalisation of an interim arrangement whereby the new lender will have control over the debits from the earlier escrow account corresponding to the earlier loan (that is proposed to be refinanced with the rated loan)*

[2]*The proposed debt is expected to be fully repaid by December 2033*

The rating, however, remains constrained by the risks in build operate transfer (BOT) toll road project, including traffic growth, wholesale price index (WPI) linked toll rates, development/improvement of alternative routes and risk of toll leakages. BFHL has to undertake the first MM in the project and its ability to complete the same in a timely manner and within the budgeted costs remains a key rating monitorable. In this context, ICRA notes that the funding-related concerns are largely mitigated by the sanction of debt for majority portion of the MM costs (for MM cycle 1) and undertaking from the sponsor for cost overrun in the MM expenses, if any. Further, any penalties levied by the authority for delays in completion of balance works or MM cycle will be borne by the erstwhile sponsor, HCC Concessions Limited (HCL), which can be netted off against the pending payouts to HCL from CH5/BFHL. BFHL's cash flows are exposed to the interest rate risk, considering the floating interest rates of the project loan. The debt structure has put option available for the lenders at the end of the seventh year and credit rating linked event of default, which if materialises, could expose the company to refinancing risk. In absence of a pre-defined MM schedule in the Concession Agreement (CA), periodic maintenance is required on a need basis, which may result in a volatility in operating expenses/cash outflows. Undertaking routine and periodic maintenance within the budgeted costs would remain important. Any significant upward revision to the operations and maintenance (O&M) and MM rates impacting BFHL's cash flows will remain a key monitorable. In this regard, ICRA has taken comfort from the healthy projected cash flow, while keeping cushion in the cost estimates for undertaking the O&M and MM expenditure.

The Stable outlook on the rating reflects ICRA's opinion that BFHL will continue to benefit from the importance of the project stretch with low alternative route risk and healthy debt coverage metrics. Further, the presence of a reputed sponsor with experience in operation of road assets supports its ability to maintain the stretch as per the concession terms.

Key rating drivers and their description

Credit strengths

Operational nature of project with established traffic – The project is favourably located, along the busy Kolkata-Siliguri corridor (part of NH-12) being a part of the primary connection for the NE region with the south and central parts of the country through NH-12. The composition of commercial traffic on the stretch is high with low alternative route risk. The project has a nine-year track record of toll collection for ~89% of the stretch and has recorded a CAGR in traffic of ~7.1% during FY2015-FY2023.

Comfortable debt coverage metrics – The likely rise in toll rates at TP1, after completion of the balance works, along with the stable growth in traffic is expected to result in an improvement in revenues and debt coverage metrics. The toll rates are estimated to increase by more than ~100% at TP1 in Q3 FY2024, post implementation of additional rates for completion of structure at Baharampore Bypass stretch. This is likely to result in an overall growth of ~40-45% in the toll collections on the stretch. Further, the presence of structural features including long debt tenure, presence of three months of DSR to be created upfront, restricted payment clause with a minimum DSCR of 1.10 times, creation of MMR provide credit support. ICRA notes that the sponsor viz. CH5 has provided an undertaking for meeting any shortfall in the cost overruns in the residual construction cost and scheduled MM. BFHL is expected to have a comfortable debt service cover with a cumulative DSCR of more than 1.65 times as per ICRA's base case estimates and the flexibility arising out of the two-year tail period.

Strong track record of sponsor in managing infrastructure assets globally – BFHL is owned by CH5, which acquired 100% shares in March 2023. The strong profile of the sponsor group, having an established track record of asset management in the infrastructure space across the globe, provides comfort.

Credit challenges

Ensuring routine and periodic maintenance expense within budgeted levels along with residual execution risks – In absence of a pre-defined MM schedule, periodic maintenance is required on a need basis, which may result in a volatility in operating expenses. BFHL has to undertake the first MM in the project and its ability to complete it in a timely manner and within the budgeted costs remains a key rating monitorable. The funding-related concerns are partly mitigated by the sanction of the debt for majority portion of the MM costs (for MM cycle 1), and sponsor shortfall undertaking for cost overrun in MM. The company planned to incur Rs. 183.5 crore towards MM in FY2024 for which BFHL has signed a fixed-price contract with HCL. Going forward, undertaking routine and periodic maintenance within the budgeted costs would remain important. Any significant upward revision to the O&M and MM rates impacting BFHL's cash flows will remain a key monitorable. ICRA has taken comfort from the healthy projected cash flow, while keeping cushion in the cost estimates for undertaking the O&M and MM expenditure. Further, any penalties levied by the authority for delays in completion of balance works or MM cycle will be borne by the erstwhile sponsor HCL, which can be netted off against the pending payouts to HCL from CH5 or BFHL.

Risk inherent in BOT toll road projects – The project remains exposed to risks inherent in BOT toll road projects, including risks arising from variation in traffic volumes over the project stretch and its dependence on economic activity in the surrounding regions. The project is vulnerable to movement in WPI (for toll rate hike), political acceptability of toll rate hike over the concession period, user willingness to pay and likelihood of toll leakages. Further, despite the favourable location of the project stretch, it remains exposed to risks of development of alternative routes/modes of transportation.

Exposed to interest rate, refinancing and asset concentration risk – The project's cash flows and profitability remain exposed to interest rate risk, given the floating nature of the interest rate. Also, the project is vulnerable to refinancing risk with lenders having the right to exercise the put option at the end of the seventh year from the date of the first disbursement and every year thereafter. Further, the debt structure has credit rating linked event of default, which if materialises, could expose the company to refinancing risk. Moreover, BFHL is susceptible to asset concentration risk due to the single asset nature with toll collections being the only source of income.

Liquidity position: Adequate

The liquidity position is expected to be adequate. The estimated cash flow from operations is likely to be sufficient to meet the MMR and debt servicing requirements. As a part of the new debt structure, the company will create a funded debt service reserve (equivalent to three months of principal + interest obligations). It has cash and bank balances of Rs. 89.9 crore as on September 30, 2023, including DSR balance of Rs. 35 crore.

Rating sensitivities

Positive factors – The rating maybe upgraded if there is higher-than-expected improvement in traffic and toll collections, while keeping the O&M costs within the budgeted levels, leading to improvement in cumulative DSCR to above 1.75 times on a sustained basis.

Negative factors – The rating may be downgraded if lower-than-envisaged growth in toll collections, or higher-than-budgeted O&M expenditure pressurises the debt coverage metrics. The rating could come under pressure if there is any non-adherence or dilution of the debt structure or increase in indebtedness. Specific trigger for a rating downgrade includes the DSCR falling below 1.6 times.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for BOT (Toll) Roads ICRA's Policy on Assigning Provisional Ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

Pending actions/documents required to be completed for conversion of 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
2. The execution of the escrow agreement corresponding to the rated loan; alternatively, until the execution of such escrow agreement, the finalisation of an interim arrangement whereby the new lender will have control over the debits from the earlier escrow account corresponding to the earlier loan (that is proposed to be refinanced with the rated loan).

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 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

Incorporated on March 11, 2010, BFHL is a special purpose vehicle (SPV) incorporated by HCC Ltd. and HCC Concessions Limited (HCL), a step-down subsidiary of HCC Ltd, to undertake the augmentation of the existing stretch of 100.6 km in West Bengal. Cube Highways and Infrastructure V Pte Ltd (CH5) has acquired 100% stake of BFHL with effect from March 28, 2023.

The said stretch is on the Baharampore – Farakka section of NH-12 (old NH-34) from 191.42 km to 294.68 km in West Bengal on Design, Build, Finance, Operate and Transfer (DBFOT) – Toll basis under the National Highway Development Programme (NHDP) Phase III. The CA was executed between BFHL and National Highways Authority of India (NHAI) on June 28, 2010 and for a concession period of 25 years from the appointed date, i.e., on February 3, 2011.

The project is partly operational with the company receiving PCOD for 75.45 kms in May 2014 and 14.35 kms in May 2021. Further, 10.8 kms of the project stretch is still under construction, which is expected to be completed by October 2023.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	249.1	419.3
PAT	-23.4	-99.4
OPBDIT/OI	36.4%	5.4%
PAT/OI	-9.4%	-23.7%
Total outside liabilities/Tangible net worth (times)	3.3	6.4
Total debt/OPBDIT (times)	7.5	28.4
Interest coverage (times)	1.2	0.3

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

Note: BFHL follows Ind AS and key financial ratios are not representative of actual cash flows

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)					Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Sep 30, 2023 (Rs. crore)	Date & Rating in		Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					Oct 23, 2023	Sep 12, 2023	-	-	-
1	**Fund-based - Term loan**	Long-term	750.0	-	Provisional [ICRA] AA- (Stable)	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	**Term loan**	NA*	NA	FY2034	750.0	Provisional [ICRA] AA- (Stable)

Source: Company

**The proposed debt is yet to be availed*

[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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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.

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