

January 11, 2024

Baharampore-Farakka Highways Limited: Provisional rating finalised

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	750.0	750.0	[ICRA] AA-(Stable), provisional rating finalised
Total	750.0	750.0	

*Instrument details are provided in Annexure-I

Rationale

ICRA has finalised the provisional rating assigned to the Rs. 750-crore bank facilities of Baharampore-Farakka Highways Limited (BFHL) at [ICRA]AA- (Stable). The finalisation of the provisional rating takes into consideration the completion of the refinancing of debt facilities, with the key terms being in line with the terms indicated at the time of assigning the provisional rating.

The rating derives comfort from BFHL's favourable location, along the busy Kolkata-Siliguri corridor (part of National Highway 12). It connects 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. It has recorded a healthy compounded annual growth rate (CAGR) in traffic of ~7.1% during FY2015-FY2023. The rating favourably takes into account the ~89% increase in toll rates at Gopgram toll plaza (TP-1) effective from December 21, 2023. The same is expected to further rise by 10-12% at TP 1 in Q4 FY2024, post completion of the balance structure across Baharampore Bypass. Timely completion of the balance work and the consequent toll rate hike remain 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 completion of 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 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.

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. 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. BFHL's cash flows are exposed to the interest rate risk, considering the floating interest rates of the project loan. The debt structure has a 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. However, it will get a refinance window of 120 days, which mitigates the risk to an extent. 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). It connects 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. Further, the project is around 99% completed by length and only balance works at Bhagirathi bridge on Baharampore Bypass section of ~0.92 km is now pending.

Comfortable debt coverage metrics – The revision in toll rates at TP1, and further anticipated increase after completion of the balance works, along with stable growth in traffic are expected to result in improved revenues and debt coverage metrics. The toll rates increased by ~89% at TP1 effective from December 21, 2023. It is further estimated to rise by 10-12% at TP 1 in Q4 FY2024, post completion of the balance structure across Baharampore Bypass. This is likely to result in an overall growth of ~40-45% in toll collections in FY2025 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 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-FY2025 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 flows, while keeping cushion in the cost estimates for undertaking the O&M and MM expenditure.

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 and alternate modes of transportation.

Exposed to interest rate, refinancing and asset concentration risks – 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. However, it will get a window/curing-period of 120 days to refinance the debt, if required. 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. 162.0 crore as on November 30, 2023, including DSR balance of Rs. 25.5 crore.

Rating sensitivities

Positive factors – The rating maybe upgraded if there is a 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 DSCR falling below 1.6 times.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for BOT (Toll) Roads
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

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 augment the existing stretch of 100.6 km in West Bengal. Cube Highways and Infrastructure V Pte Ltd (CH5) 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, 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, 14.35 kms in May 2021 and 9.88 kms in December 2023. Further, 0.92 kms of the project stretch is still under construction, which is expected to be completed by January 2024.

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

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

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	Type	Current rating (FY2023)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024			Date & rating in FY2023	Date & rating in FY2022
				Jan 11, 2024	Oct 23, 2023	Sep 12, 2023		
1 Term loans	Long term	750.0	626.0	[ICRA] AA-(Stable)	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	Dec 2023	NA	FY2024	750.0	[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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