

March 21, 2024

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)
Total	337.80	337.80	

*Instrument details are provided in Annexure-I

Rationale

The rating upgrade for Rajiv Chowk-Sohna Highway Private Limited (RCSHPL) favourably factors in the completion of positive change of scope (COS) works at Vatika Chowk underpass, thereby eliminating the execution risk and subsequent receipt of two semi-annuities without any deductions. The company has received three semi-annuities till date and 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 takes comfort from the stable revenue stream for the term of the concession from the project owner and annuity provider, 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 considers 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. It has prepaid two upcoming repayments due in July 2024 and January 2025, respectively, and there is a gap of one month between the scheduled annuity payment date and the debt servicing date. ICRA takes note of the strong operational track record of its sponsor and operations and maintenance (O&M) contractor – Oriental Structural Engineers Private Limited (OSEPL, rated [ICRA]AA (Stable)).

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, its 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. Any major deductions from the annuities or increase in routine and major maintenance (MM) from the budgeted level could impact its DSCR. ICRA takes note of the recent incident of bursting of Gurugram Metropolitan Development Authority (GMDA) sewer line near Subhash Chowk on the main carriageway (MCW). Work is being undertaken by GMDA, which is likely to be completed in the near term. Although a part of the project stretch was unavailable for use, the management indicated that there will not be any penalties levied by the authority as the maintenance of sewer lines falls under the purview of GMDA. While the company has received the recent semi-annuity (annuity was due on December 30, 2023 and was received on January 16, 2024) without any penalties or deductions, ICRA will continue to monitor the development in this regard, and deduction in upcoming annuities, if any, on the aforesaid incident will be a credit negative. 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 receive the annuities in a timely manner without any deductions from NHAI, which is a strong counterparty, and maintain strong debt coverage metrics.

Key rating drivers and their description

Credit strengths

Annuity nature of project with track record of three semi annuities – The annuity nature of the project eliminates the traffic risk in the hybrid annuity model (HAM) road projects. The project will have a stable annuity revenue stream over the term of the concession from the project owner and annuity provider, the NHAI, which is a key Central Government entity responsible for the development and maintenance of India's national highway programme. RCSHPL achieved the final COD for the project effective from June 30, 2022. Further, the company has completed positive COS works eliminating the execution risks. As on February 29, 2024, it has received three semi-annuity payments, including O&M payment, without any deductions. The future semi-annuities will be based on 60% of the completion cost.

Healthy projected debt coverage indicators and presence of structural features – RCSHPL is expected to have a healthy 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 company has prepaid two upcoming repayments due in July 2024 and January 2025, respectively. 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 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 1.15 times provides comfort. 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 presence of DSR to mitigate any short-term cash flow mismatches.

Credit challenges

Project cash flows and returns exposed to spread between RBI's bank rate and interest rate charged by lenders – The project's cash flows and returns are exposed to 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. However, the interest 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 asset concentration risks – 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 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. Any major deductions from the annuities or increase in routine and major maintenance from the budgeted level could impact its DSCR. ICRA has drawn comfort from the fact that the SPV has a fixed-price O&M and MM contract with OSEPL.

ICRA takes note of the recent incident of bursting of GMDA sewer line near Subhash Chowk on MCW. The repair work is being undertaken by GMDA, which is likely to be completed in the near term. Although part of the project stretch was unavailable for use, the management indicated that there will not be any penalties levied by the authority as maintenance of sewer lines are GMDA's responsibility. ICRA will continue to monitor the development in this regard, and deduction in upcoming annuities, if any, on the aforesaid incident will be a credit negative.

Liquidity position: Adequate

The cash flow from operations are expected to be sufficient to meet the debt servicing obligations during the tenure of the rated instruments. The company's liquidity position is supported by DSRA equivalent to six months of principal and interest obligations and a 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 – Pressure on the rating could arise if there are major deductions or delays in 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 1.25 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	Corporate Credit Rating Methodology BOT (Hybrid Annuity) Roads
Parent/Group support	Not Applicable
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 an 8.942 km road stretch on hybrid annuity basis under concession by the NHAI.

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

Key financial indicators (audited)

Standalone	FY2022	FY2023
Operating income	342.7	271.0
PAT	9.3	34.6
OPBDIT/OI	7.7%	28.6%
PAT/OI	2.7%	12.8%
Total outside liabilities/Tangible net worth (times)	3.4	3.4
Total debt/OPBDIT (times)	8.5	4.2
Interest coverage (times)	1.9	2.4

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore
RCSHPL 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 (FY2024)				Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Feb 29, 2024 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
				Mar 21, 2024	May 09, 2023	Sep 07, 2022	Jan 07, 2022	-	
1	Term loans	Long term	337.80	284.0	[ICRA]AA+ (Stable)	[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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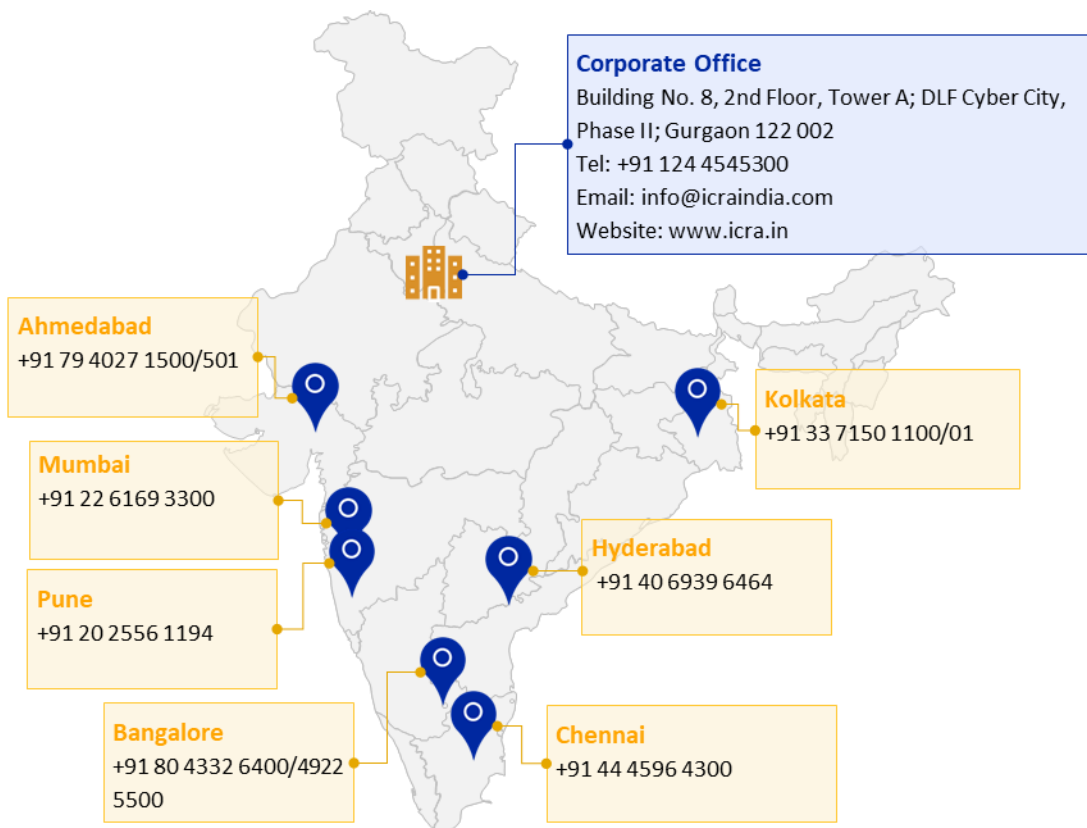
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