

July 26, 2024

RCCL Srikanche Expressway Private Limited: Rating reaffirmed; rating withdrawn for bank guarantee facility

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loans	685.71	685.71	[ICRA]BBB(Stable); Reaffirmed
Bank guarantee	47.40	-	[ICRA]BBB(Stable); Reaffirmed and withdrawn
Total	733.11	685.71	

*Instrument details are provided in Annexure I

Rationale

The rating reaffirmation for RCCL Srikanche Expressway Private Limited (RSEPL) derives comfort from the operational track record of its sponsor and engineering, procurement, and construction (EPC) contractor – Ramalingam Construction Company Private Limited (RCCPL) in executing road projects. ICRA notes the strong linkages with the sponsor, RCCPL, in the form of undertaking of cost overruns during the construction phase, shortfall in operations and maintenance (O&M) expenses during the operations period, along with unconditional and irrevocable corporate guarantee for RSEPL's debt provide strength to the credit profile.

The rating favourably factors in the inherent benefits of the hybrid annuity model (HAM) nature of the project, including upfront availability of right of way (RoW), automatic de-scoping of RoW pending beyond 180 days from the appointed date, and inflation-linked revisions to the bid project cost (BPC) during the construction period. The project has a relatively moderate funding risk with 40% of the BPC to be funded by the authority during the construction period in the form of grants. The rating notes the stable revenue stream post commissioning of the project with 60% of the inflation-adjusted BPC being paid out as annuity, along with interest at an average of one-year MCLR of the top five scheduled commercial banks + 1.25%. The rating considers the inflation-adjusted O&M cost bid over the 15-year operations period by the project owner, National Highways Authority of India (NHAI, rated [ICRA]AAA (Stable)), which is a strong counterparty. The credit profile is supported by the comfortable projected debt service coverage ratios (DSCR) during the debt tenure and structural features of the debt, including the presence of escrow, a cash flow waterfall mechanism, provision for creation of reserves and a restricted payment clause with a minimum DSCR of 1.15 times. The provision for reserves includes a debt service reserve account (DSRA) equivalent to six months' principal as well as interest and a major maintenance reserve (MMR).

The rating is, however, constrained by execution risks involved in under-construction projects, including time and cost overruns. The project has received appointed date on July 11, 2022 and the company has achieved 65.07% physical completion as on June 30, 2024 against achieving commercial operations date (COD) by July 09, 2024. The physical progress is lower than the earlier scheduled plans due to unseasonal rainfalls, along with delay in approvals for utility shifting and change of scope from the authority. The company has requested 180 days of extension of time (EOT) for completing the project and the requisite approval from the authority is awaited. The cost overrun risk is mitigated to an extent by the fixed-price EPC contract with RCCPL. The receipt of EOT from the authority and the company's ability to commission the project within the stipulated time and budgeted costs would remain important from the credit perspective. The total estimated project cost of Rs. 1,522.53 crore is planned to be funded by NHAI's grant of Rs. 632.0 crore, external debt of Rs. 685.71 crore and promoters' contribution of Rs. 204.82 crore. The promoters infused Rs. 134 crore as on June 30, 2024 and is adequately placed to infuse the balance Rs. 70 crore in FY2025. Post-commissioning, RSEPL will have to undertake O&M of the project stretch as per the concession agreement and ensure healthy lane availability to avoid any deductions from the annuities. Any significant deduction from

annuities or increase in routine and major maintenance (MM) from the budgeted level could impact the company's DSCR. RSEPL's cash flows are exposed to inflation risks 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 and periodic maintenance expenses.

The Stable outlook on the rating reflects ICRA's opinion that RSEPL will benefit from the strong execution capabilities of sponsor and EPC contractor, RCCPL, and expectation of timely completion of the project within stipulated timelines.

ICRA has reaffirmed and withdrawn the rating assigned to the bank guarantee facilities of RSEPL based on the No Objection Certificate received from the banker, and in accordance with ICRA's policy on withdrawal.

Key rating drivers and their description

Credit strengths

Low inherent risks in HAM projects from NHAI – The inherent benefits of the HAM project include upfront availability of RoW, automatic de-scoping of RoW pending beyond 180 days from the appointed date and inflation-linked revisions to the BPC during the construction period. It faces relatively moderate funding risk with 40% of the BPC to be funded by the authority during the construction period in the form of a grant. A stable revenue stream post commissioning of the project with 60% of the inflation-adjusted BPC being paid out as annuity, along with interest at an average of one-year MCLR of the top five scheduled commercial banks + 1.25% offers comfort. Additionally, the project has inflation-adjusted O&M cost bid over the 15-year operations period by the project owner, NHAI, which is a strong counterparty.

Track record of sponsor in executing BOT projects – The rating takes comfort from the operational track record of its sponsor and EPC contractor, RCCPL, in executing road projects. RCCPL had completed two Build-Operate-Transfer (BOT) projects, Yelahanka - AP Border Tollways Private Limited in a timely manner while RCCL Expressway Private Limited (REPL, rated [ICRA]BBB+(Stable)) ahead of the scheduled timeline in the past, provides comfort. Also, strong linkages with the sponsor, RCCPL, in the form of an undertaking for cost overruns during the construction phase, shortfall in O&M expenses during the operations period, along with unconditional and irrevocable corporate guarantee for RSEPL's debt provide strength to the credit profile.

Comfortable projected debt coverage indicators for project – The credit profile is supported by structural features of the debt, including the presence of escrow, a cash flow waterfall mechanism, provision for the creation of reserves and a restricted payment clause with a minimum DSCR of 1.15 times. The provision for reserves includes a DSRA equivalent to six months' principal and interest and an MMR. The project is expected to achieve the COD within the stipulated time by the authority and within the budgeted level. Once operational, RSEPL is likely to have healthy debt coverage indicators during the debt tenure.

Credit challenges

Execution risk due to under-construction stage of project – The company is exposed to execution risks in under-construction projects, including time and cost overruns. The project has received the appointed date on July 10, 2022, and has achieved 65.07% physical completion as on June 30, 2024 against achieving COD by July 09, 2024. The physical progress is lower than the earlier scheduled plans due to unseasonal rainfalls, along with the delay in approvals for utility shifting and change of scope from the authority. The company has requested 180 days of EOT for completing the project and the requisite approval from the authority is awaited. The repayment was earlier expected to commence from February 2025, which is now likely to commence from September 2025 with extension in timeline. The cost overrun risk is mitigated to an extent by the fixed-price EPC contract with RCCPL. The receipt of EOT from the authority and the company's ability to commission the project within the stipulated time and budgeted costs would remain important from the credit perspective.

Exposed to equity mobilisation risk – The total estimated project cost of Rs. 1,522.53 crore is planned to be funded by the NHAI's grant of Rs. 632.0 crore, external debt of Rs. 685.71 crore and promoters' contribution of Rs. 204.82 crore. The

promoters infused Rs. 134.48 crore as on June 30, 2024 and is adequately placed to infuse the balance Rs. 70 crore in FY2025. However, any slowdown in execution of the existing order book by RCCPL is expected to impact its revenues and cash flows, which could ultimately result in equity mobilisation risk and remains a key rating monitorable.

Undertaking O&M as per concession requirement, cash flows and returns exposed to inflation risks – Post commissioning, RSEPL will have to undertake O&M of the project stretch as per the concession agreement and ensure healthy lane availability to avoid any deductions from the annuities. Any significant deduction from annuities or increase in routine and MM expenses from the budgeted level could impact its DSCR. RSEPL'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. Hence, adequate and within budgeted O&M expenses will be a key rating sensitivity during the operations stage.

Liquidity position: Adequate

RSEPL's liquidity position is adequate, with the remaining project cost of Rs. 542.54 crore as on June 30, 2024 likely to be funded by undrawn sanctioned term loan of Rs. 214.71 crore, pending equity infusion of Rs. 70 crore from RCCPL and Rs. 228.03 crore of grant from the NHAI (excluding inflation adjustment).

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the project achieves COD without any cost overruns and receipt of annuity payments without any material deductions in a timely manner.

Negative factors – Pressure on the rating could arise if the project's progress is delayed, resulting in significant cost overruns, or if there is a deterioration in the credit profile of the sponsor, or if delays in the receipt of grant or equity infusion increase the funding risks for the project.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Roads – Hybrid Annuity Policy on withdrawal of Credit ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the company's standalone financial profile

About the company

RSEPL is a special purpose vehicle (SPV) incorporated in September 2021 by Ramalingam Construction Company Private Limited (RCCPL) to undertake the design, build, operate and transfer (DBOT) of 31.705 km road stretch on hybrid annuity basis under concession from the NHAI. The stretch involves construction of the four-lane Bangalore Chennai Expressway from Ch. 230.000 to Ch. 261.705 (Kanchepuram to Sriperumbudur section in Tamil Nadu). The BPC is Rs. 1,580 crore, with the first year O&M cost estimated at Rs. 3 crore. The SPV received the appointed date on July 11, 2022.

Key financial indicators

Key financial indicators are not applicable as RSEPL is a project-stage company.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2025)			Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Date & rating in	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				July 26, 2024	Apr 25, 2023	-	Feb 24, 2022
1	Term loans	Long term	685.71	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)
3	Bank guarantee	Long term	47.40	[ICRA]BBB (Stable) withdrawn	[ICRA]BBB (Stable)	-	[ICRA]BBB (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loan	Simple
Bank guarantee	Very 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	January 2022	-	March 2038*	685.71	[ICRA]BBB (Stable)
NA	Bank guarantee	-	-	-	47.40	[ICRA]BBB (Stable) withdrawn

Source: Company; *tentative and repayment shall be realigned after actual COD

[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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