

November 15, 2024

Rajiv Chowk-Sohna Highway Private Limited: Rating upgraded

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]AAA (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 receipt of four semi-annuities till date without any material deductions and creation of debt service reserve (DSR), equivalent to six months of debt servicing obligations, major maintenance reserve (MMR) and regular O&M and interest obligation reserve (Opex reserves), which supports its credit profile. The rating also considers expected stable revenue stream for the term of the concession from the project owner and annuity provider, the 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 is supported by the healthy projected debt service coverage ratio (DSCR) of more than 1.25 times 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., DSR, MMR and Opex reserves). The rating takes comfort from the gap of one month between the scheduled annuity payment date and the debt servicing date, coupled with pre-default structure of DSRA in case of any delay in annuity receipt. Further, the prepayment of one instalment due in January 2025 has led to healthy cushion in debt servicing timelines.

The rating is, however, sensitive to vulnerability of RCSHPL's cash flows and returns 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. ICRA also notes the asset concentration risk owing to the dependency on a single project stretch, necessitating it to ensure satisfactory upkeep of the carriageway and undertake O&M and major maintenance of the project stretch as per the concession agreement (CA) to avoid any deductions from annuities and O&M payments. 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. Therefore, any significant deduction from the annuities or O&M payments or increase in O&M and MM expenses from the budgeted level could impact its coverage metrics and remains a key rating monitorable. However, RCSHPL has entered into a long-term fixed-price O&M and MM contract with Oriental Structural Engineers Private Limited (OSEPL, rated [ICRA]AA (Stable)), which has a strong operational track record of operating road projects and provides comfort.

ICRA has taken note of the incident of bursting of the Gurugram Metropolitan Development Authority (GMDA) sewer line near Subhash Chowk on the main carriageway (MCW) in December 2023. Restoration works for the same have been completed by the GMDA and there were no deductions from the NHAI in the third and fourth annuities, despite a part of the project stretch was unavailable for use during the restoration process indicating that the scope of maintenance of sewer lines falls under the purview of the GMDA. However, ICRA will continue to monitor the development in this regard, and any deduction in upcoming annuities, if any, on the aforesaid incident will be a credit negative.

The Stable outlook on the long-term rating reflects the expectation of timely receipt of annuities, healthy debt coverage metrics and presence of structural features, with presence of strong counterparty in form of NHAI.

Key rating drivers and their description

Credit strengths

Operational nature of project with track record of four semi-annuities – RCSHPL achieved the final commercial operation date (COD) for the project effective from June 30, 2022 and completed the project within the budgeted estimates. The achievement of final COD and finalisation of project completion cost, eliminate the residual execution risks and hence uncertainty related to the annuity amounts. As of October 2024, it has received four semi-annuity payments, including O&M payment, without any material deductions in a timely manner. The future semi-annuities will be based on 60% of the completion cost.

Annuity nature of project with strong counterparty – The annuity nature of the project eliminates the traffic risk in HAM road projects. As per the concession agreement, RCSHPL will be receiving 30 semi-annual annuities starting six months from completion (or provisional completion) totalling to 60% of the final project completion cost, along with the 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, the NHAI, a key Central Government entity responsible for the development and maintenance of the national highways in the country.

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 movements 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 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 the presence of pre-default DSR to mitigate any short-term cash flow mismatches. Further, the prepayment of one instalment due in January 2025 has led to a healthy cushion in debt servicing timelines.

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, it must ensure satisfactory upkeep of the carriageway and undertake O&M and major maintenance of the project stretch as per the concession agreement (CA) to avoid any deductions from annuities and O&M payments. 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. Therefore, any significant deduction from the annuities or O&M payments or increase in O&M and MM expenses from the budgeted level could impact its coverage metrics and remains a key rating monitorable. However, RCSHPL has entered into a long-term fixed-price O&M and MM contract with Oriental Structural Engineers Private Limited (OSEPL, rated [ICRA]AA (Stable)), which has a strong operational track record of operating road

projects and provides comfort. 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.

Liquidity position: Adequate

The company's liquidity position is adequate, supported by DSRA equivalent to six months of principal and interest obligations (Rs. 21.1 crore), free cash & liquidity (including investments in fixed deposits and financial instruments) of Rs. 71.4 crore as on September 30, 2024. The cash flow from operations is expected to be sufficient to meet the debt servicing obligations during the tenure of the rated instruments.

Rating sensitivities

Positive factors – NA

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 or dilution to the debt structure.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Roads - Hybrid Annuity
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 Oriental Structural Engineers Pvt Ltd, (OSEPL) to undertake the design, build, operate and transfer (DBOT) of an 8.942-km road stretch on a hybrid annuity basis under concession by the NHAI in Haryana. The project entails six laning and strengthening of the NH-248A from existing 2+740 km (Rajiv Chowk) to 11+682 km in Gurugram under the NHDP Phase-IV. 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	FY2023	FY2024
Operating income	271.0	140.6
PAT	34.6	19.9
OPBDIT/OI	28.6%	34.0%
PAT/OI	12.8%	14.2%
Total outside liabilities/Tangible net worth (times)	3.4	2.8
Total debt/OPBDIT (times)	4.2	6.2
Interest coverage (times)	2.4	1.8

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; 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	Current rating (FY2025)			Chronology of rating history for the past 3 year			
	Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022
			Nov 15, 2024	Mar 21, 2024	May 09, 2023	Sep 07, 2022	Jan 07, 2022
1 Term loans	Long term	337.80	[ICRA]AAA (Stable)	[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]AAA (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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