February 21, 2025

VRC SR Highways Private Limited: Rating upgraded; outlook revised to Positive

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term – Fund-based – Term loan	208.75	208.75	[ICRA]A; Upgraded from [ICRA]A-; Outlook revised to Positive from Stable
Total	**208.75**	**208.75**	

** Instrument details are provided in Annexure-I*

Rationale

The rating upgrade with revision of outlook to Positive for VRC SR Highways Private Limited (VSRHPL) favourably factors in the achievement of provisional completion certificate (PCC-I/ PCOD) for the two-lane national highway construction project being undertaken by the company on June 08, 2024 and commencement of annuity payments (first semi-annual annuity received in January 2025). The PCC-I was declared with the completion of around 90% for the total project stretch. The company has completed the construction of the pending stretch in January 2025, which is in line with the settlement agreement entered with the National Highway Authority of India (NHAI or the authority, rated at [ICRA]AAA (Stable)) in September 2024. VSRHPL has applied for the final commercial operations date (COD) certificate, which is expected shortly. While the first annuity was received with a delay due to procedural reasons, ICRA expects the subsequent annuities to be received in a timely manner, given the strong counterparty. Thereby, the credit profile is likely to improve with stability of cash flows on full annuity payments.

The rating factors in the credit support provided by the structural features of the debt, including presence of escrow, cash flow waterfall mechanism, provision for six months' debt service reserve account (DSRA; to be created up to the receipt of the first two annuities) and creation of major maintenance reserve (MMR). Additionally, the cash sweep mechanism and restricted payment clause, with a minimum debt service coverage ratio (DSCR) of 1.2 times, provide comfort. With the receipt of first annuity and sponsor funds, VSRHPL has funded the DSRA partially (Rs. 9.2 crore) and the balance is expected to be funded on receipt of the second annuity. ICRA draws comfort from the buffer of around 50 days between the annuity due date and the scheduled debt servicing date, which provides a cushion in case of any delay in annuity receipts. Further, the rating notes the healthy credit profile of its sponsor, VRC Constructions (India) Limited (VRC, rated at [ICRA]A (Stable)/ [ICRA]A2+), which has provided sponsor undertakings towards any shortfall in operations and maintenance (O&M) expenses for the project, and debt servicing obligations for the entire tenor of the facility. Given that the DSRA is not fully funded at present, VRC is expected to bridge the funding gap, if any, to ensure timely debt servicing obligations.

The rating, however, remains constrained by the exposure of VSRHPL's cash flows to inflation risks, as O&M receipts, though linked to inflation index (70% WPI and 30% CPI), may not be adequate to compensate for the actual increase in O&M/periodic maintenance expenses. ICRA notes the single-asset nature of the project operations, thereby making the debt metrics sensitive to any deductions in annuity and O&M receipts. The O&M works are being currently undertaken by VRC, and a fixed-price agreement shall be executed shortly, as per the management guidance. The company will have to undertake O&M of the project stretch as per the concession agreement to avoid any deductions from annuities. Any significant deductions from annuities or an increase in routine or major maintenance (MM) from the budgeted level could impact its DSCR. ICRA's rating factors in the exposure of VSRHPL's cash flows to the spread between the interest earned on the outstanding annuities, which is linked to the average one-year MCLR of top five scheduled commercial banks (SCBs) and the interest rate on the project loans, which is linked to the Reserve Bank of India's (RBI) repo rate. The company has been sanctioned a top-up debt of Rs. 77.25 crore (incremental to the outstanding project debt of Rs. 201.5 crore) towards settlement of the unsecured loans infused by the sponsor and cost escalations. While this will lead to moderation in the debt coverage metrics, the same are expected to remain adequate.

The Positive outlook on the rating reflects that the company's credit profile will improve with full creation of DSRA and expected timely receipt of annuities and O&M payments, without any material deductions.

Key rating drivers and their descriptions

Credit strengths

Alleviation of execution risk with achievement of PCC-I and receipt of first annuity – VSRHPL received PCC-I on June 08, 2024, after completing the ~90% length of the project (86.030 km main carriageway (MCW) and 8.966 km service road completed against the total project length of 102.076 km) within the stipulated timelines. Consequently, it received the first annuity payment (including interest on annuity and O&M payment) for the cost incurred till the achievement of PCC-I, without any deductions. Further, the company completed the remaining stretch in January 2025, in line with the settlement agreement entered with the authority in September 2024 and has applied for final COD, which is expected shortly. While the first annuity was received with a delay due to procedural reasons, the subsequent annuities are likely to be received in a timely manner. The final completion cost, with which the future annuities will be linked, is likely to be finalised by the time of second annuity payment.

Adequate coverage indicators and presence of structural features – VSRHPL is expected to have adequate debt coverage indicators, with a cumulative DSCR of around 1.1 times during the debt tenure, despite the proposed top-up debt of Rs. 77.25 crore (incremental to outstanding project debt of Rs. 201.5 crore). The credit profile is supported by VRC's undertaking towards any shortfall in O&M expenses and debt servicing obligations. Further, the presence of structural features of the debt, including the presence of escrow, cash flow waterfall mechanism, provision for creation of six months' DSR, and MMR supports its credit profile. Additionally, the cash sweep mechanism and restricted payment clause with a minimum DSCR of 1.2 times provides comfort.

Credit challenges

Project cash flows and returns exposed to interest rate and inflation risks – The project's cash flows and returns are exposed to the interest rate risk and are dependent on the spread between the interest rate applicable to annuities and the interest rate charged by lenders. The interest on the outstanding annuities from the NHAI is linked to the average one-year MCLR of top five SCBs, while the interest rate charged by the lenders (as per the revised sanctioned terms) is linked to RBI's repo rate. Further, VSRHPL's cash flows are exposed to inflation risk as O&M receipts, though linked to inflation (70% WPI and 30% CPI), may not be adequate to compensate for the increase in O&M/periodic maintenance expenses.

Undertaking routine and periodic maintenance expenses within budgeted levels and risk of deductions from annuity – VSRHPL's income includes annuity, interest on outstanding annuities and the annual O&M payments from the NHAI. Hence, regular and periodic maintenance of the project stretch, as per the concession agreement, is important for receiving full annuity receipts. Any significant deductions from annuities or increase in expenditure towards regular or periodic maintenance will have a bearing on the DSCR. This will remain a key rating sensitivity. VSRHPL is expected to formally enter a fixed-price O&M and MM contract with its sponsor, VRC. VRC has a track record of around half a decade in the engineering, procurement and construction (EPC) segment and has undertaken multiple projects as a contractor. However, any material deterioration in VRC's credit profile impacting VSRHPL's ability to undertake maintenance activities will remain a monitorable.

Liquidity position: Adequate

VSRHPL's liquidity position is expected to be adequate, supported by timely receipt of annuities without any major deductions. The company has created partial DSRA worth Rs. 9.2 crore and the balance shall be created from the proceeds of the second annuity, which shall further support the liquidity profile.

Rating Sensitivities

Positive factors – The rating could be upgraded upon demonstration of a sustained track record of annuity and O&M payments without any deductions and creation of all stipulated reserves.

Negative factors – Pressure on the rating could arise if there are major deductions or delays in the receipt of annuities, higher-than-envisaged O&M cost or additional indebtedness adversely impacting the debt coverage metrics. Any non-adherence to the debt structure will also be a credit negative. Further, any deterioration in the credit profile of the sponsor will exert pressure on the rating.

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

Incorporated in 2021, VRC SR Highways Private Limited (VSRHPL) is a special purpose vehicle (SPV) promoted and entirely held by VRC Constructions (India) Limited (VRC), for the construction/ upgradation of two lanes with paved shoulders of NH-911 from Sriganganagar to Raisinghnagar on Hybrid Annuity Mode (HAM) in Rajasthan. The construction period for the project is two years from the appointed date, and the operations period is 15 years from the COD. The project received an appointed date of June 10, 2022, achieved PCOD w.e.f. June 08, 2024, and received its first annuity payment (along with interest on annuity and O&M payment) in January 2025.

Key financial indicators (audited)

The key financial indicators are not applicable as VSRHPL is a project-stage company.

Status of non-cooperation with previous CRA: Not applicable

Any other information: The company faces prepayment risk, in case of debt acceleration upon the breach of covenants, including financial covenants, operating covenants, and rating-linked covenants. Upon failure to meet the covenants, if the company is unable to get waivers from the lender or the lender does not provide it with adequate time to arrange for alternative funding to pay off the accelerated loans, the rating would face pressure.

Rating history for past three years

Instrument	Current (FY2025)				Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	FY2025		FY2024		FY2023		FY2022	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based – Term loan	Long-term	208.75	Feb-21-25	[ICRA]A (Positive)	Nov-07-23	[ICRA]A- (Stable)	Aug-29-22	[ICRA]A- (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund based – Term Loan	Simple*

** Subject to acceptance of the revised sanctioned terms by the company.*

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	**Fund based – Term Loan**	March 23, 2022; February 07, 2025*	NA	July 31, 2037	208.75	[ICRA]A (Positive)

*Source: Company data, ICRA Research; *Refinancing of original debt with top-up*

[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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