March 17, 2025

VRC AC Highways Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Long-term – Fund-based – Term loan	466.50	466.50	[ICRA]A- (Stable); reaffirmed
Total	**466.50**	**466.50**	

**Instrument details are provided in Annexure I*

Rationale

The rating reaffirmation for VRC AC Highways Private Limited (VACHPL) factors in the steady execution pace of the greenfield highway construction project being undertaken by the company and the healthy credit profile of its sponsor – VRC Constructions (India) Limited (VRC, rated at [ICRA]A (Stable)/ [ICRA]A2+), which is the engineering, procurement and construction (EPC) contractor for the project. VRC, which has a healthy financial profile and execution track record, has provided a corporate guarantee (CG) till the receipt of the first two annuities and sponsor undertaking towards cost overrun during the construction phase, and any shortfall in operations and maintenance (O&M) expenses for the project.

The rating takes note of the inherent benefits of the hybrid-annuity model (HAM) based project, which includes upfront availability of right of way (RoW), de-scoping of RoW pending beyond 180 days from the appointed date, inflation-linked revisions to the bid project cost (BPC) during the construction period, and relatively lower equity mobilisation risk, with 40% of the BPC to be funded by the authority during the construction period through a grant. ICRA positively considers the structural features of the debt, including the presence of escrow, cash flow waterfall mechanism prioritising debt servicing, provision for creation of six months' debt service reserve (DSR) and major maintenance reserve (MMR). Once the project becomes operational, the presence of reserves to meet the regular O&M and interest obligations till the next scheduled annuity and restricted payment clause offer comfort. Comfort is also derived from the project's stable revenue stream after commissioning, with 60% of the inflation-adjusted BPC being paid out as annuity, along with interest at average of one-year MCLR of top five scheduled commercial banks (SCBs, to be reset every quarter) plus a spread of 1.25%. Additionally, the inflation-adjusted O&M cost to the extent of fixed percentage of BPC without any price index multiple (PIM) as per the concession agreement over the 15-year operations period by the project owner and authority – National Highways Authority of India [NHAI, rated [ICRA]AAA(Stable)], which is a strong counterparty. Once operational, VACHPL is expected to have adequate debt coverage metrics.

The rating is, however, constrained by the execution risks, given the under-construction status of the project, including time and cost overrun risks. The project has a scheduled commercial operation date (SCOD) of October 10, 2025, and had achieved ~40% physical completion as of January 2025. It has been delayed due to major changes in scope of works (e.g. inclusion of several additional structures) and given that these are beyond the control of the concessionaire i.e., VACHPL, requisite extension of timeline (EOT) has been sought from the authority. The company's ability to commission the project within the approved timeline and budgeted costs would remain important from the credit perspective. VACHPL has signed a fixed-price and fixed-time contract with its EPC contractor, which largely mitigates risk of time and cost overrun. VACHPL is exposed to equity mobilisation risk as ~25% equity (~Rs. 39 crore as of January 2025) is yet to be infused. However, this risk is largely mitigated given VRC's healthy financial risk profile. Following commissioning, O&M of the project stretch will have to be undertaken as per the concession agreement to avoid any deductions from annuities. Any significant deductions from annuities or increase in routine and major maintenance (MM) from the budgeted level could impact the company's DSCR. ICRA's rating factors in the exposure of VACHPL'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 and the interest rate on the project loans, which is linked to the base rate of the lead lender. Further, VACHPL'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.

The Stable outlook on the rating reflects ICRA's opinion that VACHPL will benefit from the healthy execution capabilities and financial profile of its sponsor and EPC contractor – VRC.

Key rating drivers and their description

Credit strengths

Established track record and financial profile of sponsor and EPC contractor – VACHPL is a wholly-owned subsidiary of VRC, which has a longstanding experience in the construction segment. VRC is the EPC contractor for executing this project. The contract is on a fixed-price, fixed-time basis, which provides comfort, given its track record of project execution within the budgeted time and cost. The total estimated project cost of Rs. 1,066.32 crore is planned to be funded by the NHAI's grant of Rs. 444.43 crore, external debt of Rs. 466.42 crore and equity worth Rs. 155.47 crore. VRC's financial profile is adequate to meet its pending equity commitment in the project (~25% pending as of January 2025), which is required to be infused over the balance construction period. Additionally, it has provided an undertaking for cost overruns during the construction and for any shortfall in O&M expenses.

Inherent benefits of HAM projects from NHAI – The inherent benefits of the HAM project include upfront availability of RoW, de-scoping of RoW pending beyond 180 days from the appointed date, inflation-linked revisions to the BPC during the construction period and relatively low equity mobilisation risk with 40% of the BPC to be funded by the authority during the construction period through a grant. The project will have a stable revenue stream post commissioning as 60% of the remaining project cost will be paid out as annuity (adjusted for inflation), along with interest at the average of one-year MCLRs of the top five SCBs (to be reset every quarter) plus spread of 1.25%, and the inflation-adjusted O&M cost to the extent of fixed percentage of BPC without any PIM as per the concession agreement over the 15-year operations period by the project owner and annuity provider, the NHAI, a key Central Government entity that develops and maintains India's national highways.

Adequate coverage indicators and presence of structural features – Though the project is anticipated to achieve the commercial operations date (COD) with a delay compared to original scheduled COD of October 2025, the presence of grace period of 90 days and likely grant of EOT by the authority offers some comfort. If the overall project cost remains within the budgeted level, once operational, VACHPL is likely to have adequate debt coverage metrics. This provides adequate cushion to withstand any movement in the interest on annuity and inflation to a major extent. The credit profile is supported by VRC's undertaking towards funding any cost overrun during the construction period and any shortfall in O&M expenses once operationalised. Further, the presence of structural features of the debt, including the presence of escrow, cash flow waterfall mechanism, provision for DSR (to be created out of the first two annuities), provision for creation of MMR and restricted payment clause with minimum DSCR of 1.15 times, provide comfort.

Credit challenges

Execution risk attributable to under-construction status of project – The project achieved the appointed date of October 12, 2023 and had achieved a physical progress of 40% as of January 2025. Thus, the company remains exposed to project execution risk including risks of delays and cost overruns. However, the risk is mitigated, to an extent, by the fixed-price, fixed-time contract with VRC and the latter's healthy project execution capabilities. It has a long execution track record in the road sector, which mitigates the execution risk to an extent. The company's ability to commission the project in a timely manner and within the budgeted costs would remain important from the credit perspective.

Exposure of project's cash flows and returns 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 scheduled commercial banks, while the interest rate charged by the lenders is linked to the base rate of the lead lender. Further, VACHPL'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.

Requirement of undertaking O&M as per concession agreement and risk of deductions from annuity – After commissioning, the O&M of the project stretch will have to be undertaken as per the concession agreement to avoid any deductions from annuities. Any significant deductions from annuities or an increase in routine and MM expenses from the budgeted level could impact its DSCR.

Liquidity position: Adequate

As the project is under construction, the company does not maintain any significant liquidity on its books. However, its liquidity position is supported by undrawn sanctioned term loan, grants receivable from the NHAI and the balance equity infusion from NPPL. The total estimated project cost of Rs. 1,066.3 crore (comprises EPC cost inclusive of GST) is planned to be funded by the NHAI's grant of Rs. 444.4 crore (including GST), external debt of Rs. 466.4 crore and promoter's contribution/equity of Rs. 155.5 crore.

Rating sensitivities

Positive factors – The rating could be upgraded if the project achieves PCOD/COD within the expected timelines and budgeted costs.

Negative factors – Pressure on the rating could arise if project progress is delayed resulting in significant time and cost overruns, or in case of delayed receipt of grant or equity infusion results in increased funding risks. Additionally, any deterioration in the sponsor's credit profile would trigger a downward rating revision.

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

VRC AC Highways Private Limited (VACHPL) is a special purpose vehicle (SPV) promoted by VRC Constructions (India) Limited (VRC) for implementing a road project envisaging development of Memmadpur (Ambala) – Banur (IT City Chowk) – Kharar (Chandigarh) corridor under Bharatmala Pariyojana – Package I – for six laning of Ambala – Chandigarh greenfield with spur to Lalru (four lane) in Punjab on HAM mode. The project length is 30.828 km and it achieved appointed date of October 12, 2023. As of January 2025, the project had achieved ~40% physical completion.

Key financial indicators (audited)

The key financial indicators are not applicable as VACHPL 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)	Mar 17, 2025	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Fund-based – Term loan	Long-term	466.50	[ICRA]A- (Stable)	Mar-27-24	[ICRA]A- (Stable)	-	-	-	-
				Mar-05-24	[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 loan**	FY2024	NA	FY2040*	466.50	[ICRA]A- (Stable)

*Source: Company, ICRA Research; *This may vary depending on the actual PCOD/ COD of the project.*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Ashish Modani
+91 20 6606 9912
ashish.modani@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Ritu Goswami
+91 124 4545 826
ritu.goswami@icraindia.com

Mrinal Jain
+91 124 4545 863
mrinal.j@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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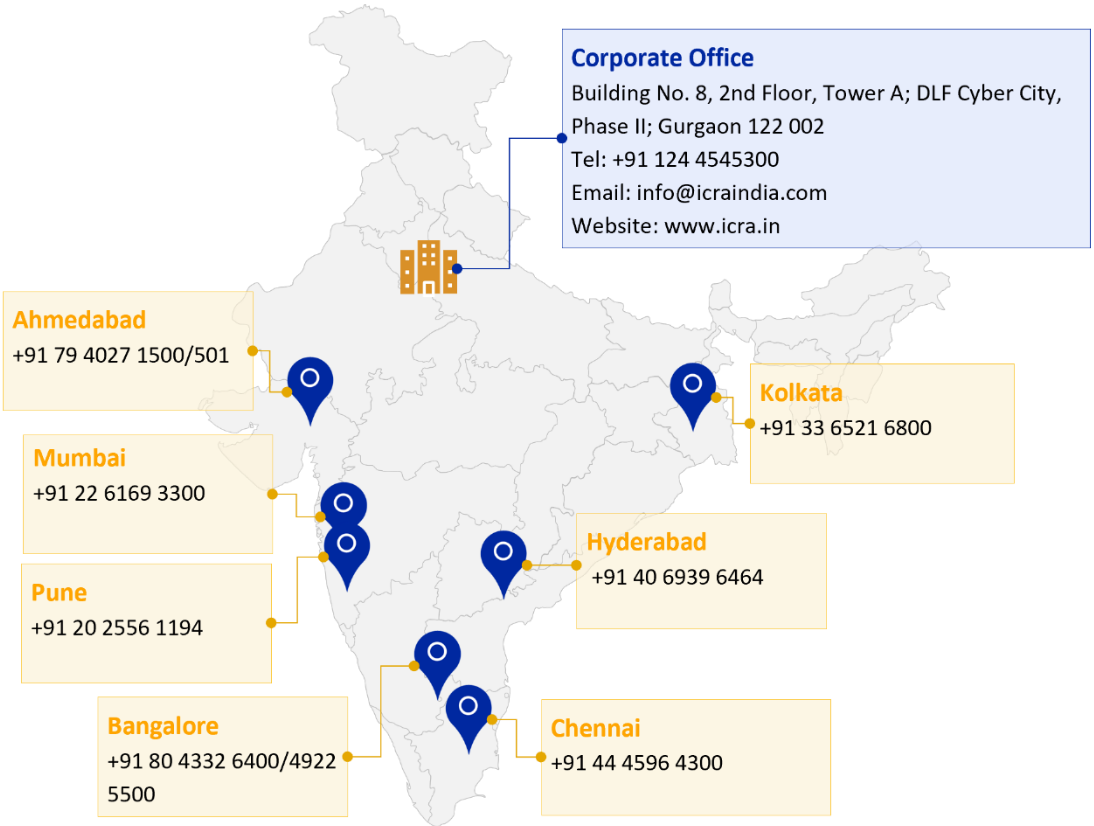
ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



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