



September 21, 2010

ICRA upgrades GMR Ulundurpet Expressways short-term rating to A2; re-affirms long-term rating at LBBB; assigns stable outlook

ICRA has reaffirmed the long-term rating of LBBB (pronounced L triple B) outstanding on the Rs. 572 crore¹ Long-term debts and Rs. 14.40 crore Non-Fund based bank facilities of GMR Ulundurpet Expressways Private Limited (GUEPL)[†]. ICRA has also upgraded the short-term rating outstanding on the Rs. 14.40 crore Non-Fund based bank facilities of GMR from A3+ (pronounced A 3 plus) to A2 (pronounced A 2) of GUEPL. The outlook on the long-term rating is 'stable'. The Non Fund Based Limits under long term and short term tenure are interchangeable and as such the combined utilization should not exceed Rs 14.40 crore.

The upgrade in GUEPL's short term rating factors in the growth in traffic numbers witnessed on this stretch which has resulted in SPV's reduced dependence on parent's support to meet its contractual obligations. The ratings continue to reflect the successful completion of the project and the strength of the GMR group in infrastructure projects. The ratings are also supported favorably by the high willingness of the users to pay toll on this stretch. The ratings however are constrained by other risks inherent in the BOT project such as political acceptability of rate hikes linked to WPI and likelihood of toll leakages. The ratings are also constrained by the company's exposure to interest rate risk given that the interest on the loans would be reset every year and the substantial negative grant of Rs. 126.51 crore payable by GUEPL to National Highway Authority of India (NHAI). The trend of growth in traffic numbers going forward will be the key rating sensitivity factor.

Company Profile

GUEPL is a wholly owned subsidiary of the GMR group. Currently, GMR Infrastructure Limited has a 41.4% stake in the company while GMR Energy Limited has a 4.6% stake and GMR Highways Limited has the balance 54% stake. GUEPL is a special purpose vehicle (SPV) set up for the purpose of collecting toll, based on a twenty year concession agreement (ending October 2026) with National Highway Authority of India. The project scope entailed construction of a total of 73 kms stretch road from Tindivanam to Ulundurpet on Chennai – Dindigul (NH45) highway connecting important cities of Chennai to Trichy in Tamil Nadu. The project commenced operations on July 23, 2009, about three months later than scheduled Commercial Operation Date (COD) due to the delay in issuance of COD by the authority. The total project cost was Rs. 888.0 crore (including a cost overrun of Rs. 93 crore), which was funded by the promoter's contribution of Rs. 291.75 crore (Rs. 198.75 crore as equity and Rs. 93.00 crore as preference shares) and term loan of Rs. 596.25 crore.

The O&M work has been sub-contracted to another GMR group company namely GMR Highways Pvt Ltd. GUEPL reported a net loss of Rs. 31.65 crore on an income of Rs. 37.71 crore as per the audited financials for FY2009-10.

September 2010

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ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

¹100 lakh = 1 crore = 10 million

[†] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

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