May 28, 2025

VRC MB 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 loans	222.00	222.00	[ICRA]A- (Stable); reaffirmed
Total	**222.00**	**222.00**	

**Instrument details are provided in Annexure I*

Rationale

The rating reaffirmation for VRC MB Highways Private Limited (VMBHPL) 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, and provision for creation of six months' debt service reserve (DSR; to be created 50% before COD and the balance from the first two annuities) 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%, and the inflation-adjusted O&M cost bid 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, VMBHPL 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 had a scheduled commercial operation date (SCOD) of December 29, 2024, which was revised to August 26, 2025 as per the settlement agreement entered with the authority in July 2024. The project progress stood at around 62% as of April 2025, and the company has applied for another extension of timeline (EOT) of 240 days, given the delay in availability of workfront/RoW. The company's ability to commission the project within the approved timelines and budgeted costs would remain important from the credit perspective. The equity mobilisation risk stands mitigated as the sponsor had infused the entire equity by March 2025. 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 and would be a key credit sensitivity. ICRA's rating factors in the exposure of VMBHPL'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 RBI's repo rate. Further, VMBHPL'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 VMBHPL will be able to achieve the provisional commercial operations date (PCOD) within the revised completion timeline and will benefit from the stable cash flows post commissioning.

Key rating drivers and their description

Credit strengths

Established track record and financial profile of sponsor and EPC contractor – VMBHPL is a wholly-owned subsidiary of VRC, which has a longstanding experience in the construction segment. VRC is also 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. 590.04 crore is planned to be funded by the NHAI's grant of Rs. 257.46 crore (including GST), external debt of Rs. 222.00 crore and equity worth Rs. 110.58 crore. The equity mobilisation risk has been mitigated as the sponsor had infused the entire equity by March 2025. 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 the 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 bid 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 – The project is anticipated to achieve PCOD within the revised completion timeline (viz. by August 2025), and the final COD by March 2026, subject to availability of workfront with the concessionaire. An EOT for 240 days, beyond August 2025, has already been applied by the concessionaire and is pending for the authority's approval. If the overall project cost remains within the budgeted level, once operational, VMBHPL 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 till the receipt of the first two annuities), provision for creation of MMR and restricted payment clause, provide comfort.

Credit challenges

Execution risk attributable to under-construction status of project – The project had a SCOD of December 29, 2024, which was revised to August 26, 2025 as per the settlement agreement entered with the authority in July 2024. The project progress stood at around 62% as of April 2025, and the company has applied for another EOT of 240 days, given the delay in availability of work-front/ RoW. Thus, it 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 RBI's repo rate. Further, VMBHPL'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 project's income would include annuity, interest on outstanding annuities and the semi-annual O&M payments from the NHAI. 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 or an increase in routine and MM expenses from the budgeted level could impact its DSCR and will be a key credit sensitivity.

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 adequate liquidity of the sponsor. As on April 30, 2025, the residual project cost was ~Rs. 156 crore, which was planned to be funded through debt drawdown of ~Rs. 79 crore and NHAI's grant of ~Rs. 77 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 if 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

Incorporated in 2022, VRC MB Highways Private Limited (VMBHPL) is a subsidiary of VRC Constructions (India) Limited (VRC), established as a special purpose vehicle (SPV) for four laning of Dhillon Nagar (Moga) to Bajakhana (Lambiwali) section of NH-105B from design chainage 0.000 km to 43.319 km under Bharatmala Pariyojana, in Punjab, on HAM basis. The authority for the project would be the NHAI. The concession agreement was signed on March 07, 2022 and the appointed date has been received as December 31, 2022. The construction period for the project is two years from the appointed date, and the operations period is 15 years from the COD. As of April 2025, the project had achieved ~62% physical progress.

Key financial indicators (Audited)

The key financial indicators are not applicable as VMBHPL 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 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 rating (FY2026)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	May 28, 2025	FY2025		FY2024		FY2023	
				Date	Rating	Date	Rating	Date	Rating
Fund-based – Term loans	Long-term	222.00	[ICRA]A- (Stable)	Apr 29, 2024	[ICRA]A- (Stable)	-	-	Jan 18, 2023	[ICRA]A- (Stable)

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term – Fund-based – Term loans	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**	FY2023	NA	FY2039*	222.0	[ICRA]A- (Stable)

*Source: Company; *May vary as the maturity date of the term loan is linked with the 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

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