July 02, 2021

H.G. Ateli Narnaul Highway Private Limited: Long-term rating upgraded to [ICRA]A+ (CE) and short-term rating reaffirmed at [ICRA]A1 (CE); outlook revised to 'Positive' from 'Stable'

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loan	405.95	405.95	[ICRA]A+(CE), upgraded from [ICRA]A(CE); outlook revised to Positive from Stable
Non-fund Based – Bank Guarantee	(95.21)	(95.21)	[ICRA]A1(CE), reaffirmed
Total	**405.95**	**405.95**	

Ratings without Explicit Credit Enhancement	[ICRA]A/[ICRA]A1

**Instrument details are provided in Annexure-1*

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

The above rating is based on the strength of the corporate guarantee provided by H.G. Infra Engineering Limited (HGIEL), the parent company of H.G. Ateli Narnaul Highway Private Limited (HANHPL), for the rated bank lines. The upgrade in the long-term rating and the revision in rating outlook to 'Positive' primarily reflect the upgrade in the ratings of the guarantor (HGIEL).

Adequacy of credit enhancement

The guarantee is legally enforceable, irrevocable, unconditional and covers the entire amount and tenure of the rated instrument. Given these attributes, the guarantee provided by HGIEL is adequately strong to result in an enhancement in the rating of the said instrument to [ICRA]A+(CE)/[ICRA]A1(CE) against the rating of [ICRA]A/[ICRA]A1 without explicit credit enhancement. In case the rating of the guarantor is to undergo a change in future, the same would reflect in the rating of the aforesaid instrument as well.

Salient covenants of the rated facility

- *Any change or reduction in the shareholding shall only be permitted with prior written approval of lenders*
- *Incase the DSCR in any year (after first principal payment) exceeds 1.71 times then 50% of the surplus cash flows above 1.22 DSCR pertaining to the project generated in the year under consideration willl be utilised for prepayment of term debt, in inverse order of maturity, without payment of prepayment premium to that extent.*
- *The borrower shall establish with the escrow bank various accounts into which all the inflows to the project shall be deposited and other accounts as may be stipulated by lenders including DSRA shall be maintained*

The rating upgrade also takes into account the healthy project progress (65% project progress as of March 2021) and receipt of three milestone construction grant payments from the National Highway Authority of India (NHAI). The rating also factors in the strong profile of its sponsor, HGIEL, which is also undertaking the engineering, procurement and construction (EPC) work for this project. This apart, the rating continues to draw comfort from the inherent benefits of the hybrid annuity model (HAM)-based project, including upfront availability of the right of way (RoW), automatic de-scoping of RoW pending beyond 180 days from the appointed date, inflation-linked revisions to bid project cost during the construction period, 40% of the bid project cost to be provided by the authority during the construction period in the form of grant and a relatively lower equity mobilisation risk (~75% equity infused as on March 31, 2021). Further, it draws comfort from the stable revenue stream post-commissioning, with 60% of the bid project cost to be paid out as semi-annual annuities (along with the interest on the residual annuities payable), besides the inflation-adjusted O&M cost bid over the term of the concession by the project owner and annuity provider, the NHAI [rated [ICRA]AAA(Stable)], which has a strong track record and credit profile, resulting in lower counterparty credit risk.

The rating, however, is constrained by the residual project execution risk with the company expecting to achieve COD in Q3FY2022. Further, the company would have to ensure healthy upkeep of the road as per the concession agreement to avoid any deductions from the annuity amount. HANHPL's cash flows are also exposed to interest rate risk given the floating nature of interest rates for the project loan. Moreover, any significant reduction in RBI bank rate would adversely impact its coverage indicators as annuity payments are linked with the bank rate. The ability of the company to complete the project in a timely manner and within the budgeted costs would remain important from the credit perspective.

Key rating drivers and their description

Credit strengths

Strong profile of sponsor – HGIEL, the sponsor of HANHPL, has established execution track record in the civil construction industry, which benefits the company. HGIEL has also provided an unconditional and irrevocable corporate guarantee for the bank facilities of HANHPL.

Benefits accruing from HAM – The project, being executed under HAM, would be supported by benefits inherent under HAM such as upfront availability of RoW, inflation-linked revisions to bid project cost during the construction period and relatively lower risk of equity mobilisation as 40% of the project cost would be funded by grants from the authority during the construction period. The project will have a stable revenue stream in the form of annuity that would be received post-commissioning (equivalent to 60% of the project cost) over the term of the concession period from the NHAI, a Central Government entity.

Established track record of HGIEL in road construction – HANHPL has entered into a fixed-price EPC contract with HGIEL, which has an established track record of timely execution of projects within the budgeted cost, especially in the road construction segment.

Credit challenges

Project exposed to execution risk – The company is vulnerable to residual project execution risks, since ~65% of the project is completed as on March 2021 and the expected COD is November 2021. Moreover, HANHPL is a project with relatively low complexity, where the implementation risk is mitigated to some extent by HGIEL's strong project execution capabilities. Further, the debt has been tied up and HGIEL has already infused equity of Rs. 101 crore out of the total requirement of Rs. 134 crore as on March 31, 2021, resulting in low funding risk.

Project returns exposed to changes in inflation and interest rate risk – HANHPL's cash flows remain exposed to the interest rate risk due to the floating nature of interest rates for the project term loan. In an event of persistently low rates of inflation, the interest payments on annuity might be lower than expected, thereby impacting debt coverage metrics.

Proper maintenance of roads essential for receipt of annuity payments – HANHPL's source of income includes the annuity, interest on outstanding annuities and annual O&M payments from the authority concerned. Hence, ensuring proper maintenance of roads, along with zero deduction in annuity receipts, will be the key credit sensitivity for HANHPL.

Liquidity position:

For the [ICRA]A+(CE)/[ICRA]A1(CE) rating: Adequate

HGIEL's average utilisation of the fund-based limits during the last 6-month period ended in April 2021 is moderate at 57% due to reduced working capital intensity. The company has repayments of Rs. 62 crore and equity commitment of Rs. 259 crore in FY2022. The estimated cash flow from operations is expected to be sufficient to take care of repayments and equity commitments in FY2022.

For the [ICRA]A/[ICRA]A1 rating: Adequate

HANHPL's liquidity is expected to remain adequate, as the pending project cost of Rs. 427 crore as on March 31, 2021 is expected to be funded by pending equity of Rs 33.00 crore, undrawn debt of Rs. 229 crore and the balance through receipt of NHAI grant and sponsor support, if required.

Rating sensitivities

Positive factors – The positive outlook could be concluded, and rating could be upgraded on receipt of first semi-annuity payment in a timely manner and creation of DSRA. Further, improvement in the credit profile of the sponsor may also warrant an upgrade.

Negative factors – Pressure on rating could arise if the project progress or equity infusion is delayed, resulting in significant time and cost overruns. Ratings may also be downgraded if there is any deterioration in the credit profile of the sponsor or any weakening of linkages with the sponsor, HGIEL.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for BOT (Hybrid Annuity Model) Roads Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Parent: H.G. Infra Engineering Ltd The assigned rating is based on the unconditional, irrevocable corporate guarantee extended by HANHPL's parent company, HGIEL.
Consolidation/Standalone	Standalone

About the company

HANHPL is a wholly-owned subsidiary of HGIEL. HANHPL is an SPV formed on the basis of a 17.5-year concession agreement (including two and half years of construction period) on May 27, 2019 with the NHAI, wherein HANHPL is to undertake the construction of proposed Narnaul bypass and Ateli Mandi to Narnaul section of NH-11 in Haryana through a private public partnership (PPP) model on a hybrid annuity mode. The project's construction started in Febraury 2020.

The estimated project cost is Rs. 947 crore and is proposed to be funded by equity of Rs. 134 crore, term loan of Rs. 406 crore and the balance through receipt of the NHAI grant.

Key financial indicators

Key financial indicators are not applicable as HANHPL is a project stage company.

About the guarantor

H.G. Infra Engineering Limited was incorporated in 2003 by Mr. Hodal Singh Choudhary, Mr. Girish Pal Choudhary, Mr. Vijendra Singh Choudhary and Mr. Harendra Singh Choudhary in Jodhpur, Rajasthan. It is primarily involved in infrastructure development and the construction of roads and highways across Rajasthan, Uttar Pradesh, Haryana, Maharashtra, Andhra Pradesh and Telangana. In FY2018, the company successfully concluded its IPO. HGIEL is accredited AA class by Public Works Department (PWD) of the Government of Rajasthan (GoR) and is also registered as an SS class contractor by the Military Engineer Services (MES).

For detailed rating rationale on H.G. Infra Engineering Ltd, please click here

Key financial indicators - Standalone

HGIEL	FY2019	FY2020	FY2021*
Operating Income (Rs. crore)	2,010	2,196	2,528
PAT (Rs. crore)	124	166	211
OPBDIT/OI (%)	15.1%	15.6%	16.2%
PAT/OI (%)	6.1%	7.5%	8.3%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.5	1.1
Total Debt/OPBDIT (times)	1.3	1.1	0.7
Interest Coverage (times)	6.2	6.5	6.9

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation *Limited review*

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Jul 02, 2021	Jan 7, 2021	Dec 20, 2019	-
1	Term Loan	Long-term	405.95	177.21	[ICRA]A+ (CE) (Positive)	[ICRA]A (CE) (Stable)	[ICRA]A (CE) (Stable)	-
2	Bank Guarantee*	Short-term	(95.21)	NA	[ICRA]A1 (CE)	[ICRA]A1 (CE)	[ICRA]A1 (CE)	-

** interchangeable with term loan*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term Loan	Simple
Bank Guarantee	Very 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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
NA	Term Loan	FY2020	NA	FY2035	405.95	[ICRA]A+ (CE) (Positive)
NA	Non-fund Based Limits*	NA	NA	NA	(95.21)	[ICRA]A1 (CE)

Source: *Company* interchangeable with term loan*

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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