

April 07, 2022

Biaora to Dewas Highway Private Limited: Rating upgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture (NCD) Programme	800.00	800.00	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable)
Term Loans	512.00	512.00	[ICRA]A+ (Stable); upgraded from [ICRA]A (Stable)
Total	1312.00	1312.00	

*Instrument details are provided in Annexure-1

Rationale

The rating upgrade for Biaora to Dewas Highway Private Limited (BDHPL) considers the steady improvement in toll collections over the last six months, which is expected to continue in FY2023, supported by favourable hikes in toll rates across vehicle categories with effect from April 01, 2022. This is likely to result in further improvement in its debt coverage metrics. BDHPL's tolling track record of nearly three years provides comfort in terms of stability of its traffic and toll collections. The rating draws comfort from the healthy projected cumulative debt service coverage ratio (DSCR) over the tenure of the debt. While the cumulative DSCR is expected to remain robust, the average DSCR for FY2023 – FY2027 is estimated at around 1.45 times. The rating positively factors in the importance of the project stretch as a part of the old National Highway (NH)-3 (North–South corridor) connecting Delhi–Agra–Mumbai via Uttar Pradesh and Madhya Pradesh. The rating also considers the presence of structural features, such as escrow mechanism, debt service reserve (DSR) equivalent to around one quarter's debt servicing obligations, reserves to be built for major maintenance (MM) and one-month operation and maintenance (O&M) expenses, provision of cash sweep, etc.

The rating, however, is constrained by the risk of diversion of the long haul (Delhi–Mumbai) traffic to the upcoming Delhi–Mumbai greenfield expressway, which is expected to become operational in phases during FY2023-FY2024. While ICRA has factored in the impact of the new greenfield expressway on BDHPL's traffic in its base case, any significant shift in traffic beyond ICRA's base case assumptions resulting in weakening of debt coverage metrics will remain a key rating sensitivity. The rating considers the risks associated with a toll road project, including lower traffic growth, volatility in traffic due to pandemic-induced challenges, diversion of traffic to the existing/future alternate routes, inflation-linked toll rate increase, etc. BDHPL is also exposed to the O&M risk associated with the project, including timely and within budget routine and periodic maintenance. Nonetheless, ICRA takes comfort from the fixed-price O&M contract with its parent Oriental Structural Engineering Private Limited (OSEPL, rated [ICRA]AA- (Stable)/[ICRA]A1+). ICRA notes that the term loan has a put option after every seven years from disbursement, which increases the refinancing risk in case of materialisation of the same. However, the project's healthy coverage indicators and a tail period of nearly five years provide comfort and financial flexibility.

The Stable outlook on the rating reflects ICRA's opinion that BDHPL will continue to benefit from the importance of the project stretch, healthy traffic, toll collections, and healthy coverage indicators.

Key rating drivers and their description

Credit strengths

Important project stretch with operational track record of nearly three years – The company received the provisional completion certificate (PCOD-I) for ~76% of the project stretch on April 30, 2019 and has been collecting toll since then. Subsequently, it received PCOD-II on December 30, 2019, for ~95% of the stretch and completion certificate for the full length on July 22, 2020. Tolling has started for the full length at revised rates from July 22, 2020, onwards. The project stretch is important as it is an integral part of old NH-3 (North–South corridor) connecting Delhi–Agra–Mumbai via Uttar Pradesh and Madhya Pradesh. It provides connectivity from Indore to Gwalior, Agra, Kanpur, Delhi, etc. The stretch is dominated by commercial traffic. Besides, given that the stretch is operational for nearly three years now, the project has a decent track record in terms of stability of its traffic and toll collections, which provides comfort to an extent.

Improvement in toll collections resulting supporting healthy debt coverage indicators – The company's toll collections witnessed steady recovery over the last six months, post the impact of the second Covid-19 wave. Besides, it is expected to improve further in FY2023, supported by the favourable hikes in toll rates across vehicle categories with effect from April 01, 2022. The same is likely to facilitate in a further improvement in its debt protection metrics.

Comfort from structural features of debt – The debt has structural features such as escrow mechanism, DSR equivalent to around one quarter's debt servicing obligations, reserves to be built for MM, one-month O&M, and provision for cash sweep which provides support. However, the term loan has a put option after every seven years from disbursement, which results in refinancing risk in case of the materialisation of same, though the project's healthy coverage indicators provide comfort.

Credit challenges

Inherent risks in toll road projects – Like any toll road project, BDHPL is exposed to risks including user willingness to accept toll rate hikes, volatility of traffic due to factors such as pandemic-induced challenges and dependence of traffic growth on the economic activities in the region. The increase in toll rates for the project stretch is partly (40%) linked to variation in WPI, which could impact the overall revenue growth for the special purpose vehicle (SPV) in the scenario of lower inflation. ICRA notes that there is a risk of diversion of long haul (Delhi–Mumbai) traffic, to some extent, to the upcoming Delhi–Mumbai Greenfield expressway post its completion. While the cumulative DSCR is expected to remain robust, the average DSCR for FY2023 – FY2027 is estimated at around 1.45 times, which also coincides with the commencement of operations of Delhi–Mumbai Expressway). ICRA has factored in the impact of the new greenfield expressway on BDHPL's traffic in its base case. However, any significant shift in traffic beyond ICRA's base case assumptions resulting in weakening of debt coverage metrics will remain a key rating sensitivity.

O&M- and MM-related risk – The company is exposed to the O&M risk associated with the project, including timely and within budget routine and periodic maintenance. However, ICRA has taken comfort from the fixed-price O&M contract with OSEPL for the same. Further, ICRA expects the company to maintain adequate reserves for the MM.

Liquidity position: Adequate

The cash flow from operations are expected to be adequate to meet the debt servicing obligations comfortably. Further, the company has been maintaining a DSRA equivalent to three months' debt servicing obligations and other requisite reserves such as O&M and MMR reserves. Besides, BDHPL had unencumbered cash and bank balances of nearly Rs. 17.11 crore as on February 28, 2022. Apart from cash and fixed deposits, the company had liquid investments of nearly Rs. 7.0 crore (in Axis liquid mutual fund) as on February 28, 2022.

Rating sensitivities

Positive factors – The rating could be upgraded if higher toll collections result in improved coverage indicators, on a sustained basis, such that the average DSCR over the next five years (FY2023–FY2027) improves above 1.65 times.

Negative factors – Downgrade pressure on rating could arise if lower toll collections result in deterioration of coverage indicators such that the average DSCR over the next five years falls below 1.35 times.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Roads - BOT TOLL
Parent/Group Support*	Not applicable
Consolidation/Standalone	Standalone

*Note: During the last rating exercise, the analytic approach considered support from BDHPL's parent, whereby the rating factored in the likelihood of OSEPL extending financial support out of its need to protect its reputation from the consequences of a group entity's distress. However, during the current rating exercise, a standalone approach has been considered given the reasonable track record of nearly three years (PCOD-I – achieved in April 2019) in terms of the traffic and toll collections, BDHPL is anticipated to be self-sustainable without requiring any support from its sponsor/parent.

About the company

BDHPL is an SPV incorporated in July 2015 to undertake four-laning of 141.26 km Biaora–Dewas section of NH-3 (revised to NH-52) from Km 426.100 to Km 566.450 in Madhya Pradesh on design build finance operate and transfer (DBFOT - toll) basis. As per the concession agreement (CA) signed between NHA and BDHPL on August 27, 2015, the concession period is 27 years (including a construction period of 910 days) from the appointed date (July 9, 2016). The company is promoted by OSEPL. It received the provisional completion certificate (PCOD-I) for ~76% of the project stretch on April 30, 2019 and has been collecting toll since then. Subsequently, it received PCOD-II on December 30, 2019, for ~95% of the stretch and completion certificate for the full length on July 22, 2020. Tolling has started for the full length at revised rates from July 22, 2020, onwards.

Key financial indicators (Audited)

BDHPL	FY2020	FY2021
Operating Income (Rs. crore)	384.2	210.0
PAT (Rs. crore)	-10.4	-52.9
OPBDIT/OI (%)	35.4%	73.9%
PAT/OI (%)	-2.7%	-25.2%
Total Outside Liabilities/Tangible Net Worth (times)	6.6	8.5
Total Debt/OPBDIT (times)	9.6	8.6
Interest Coverage (times)	0.9	0.9

(Source: BDHPL; ICRA)

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

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on February 28, 2022 (Rs. crore)	Date & Rating on	FY2022		FY2021			FY2020
						April 07, 2022	December 24, 2021	June 10, 2021	December 31, 2020	September 09, 2020	August 04, 2020
1	NCD	Long Term	800.0	797.0	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	Provisional [ICRA]A- (Stable)	Provisional [ICRA]A- (Stable)	Provisional [ICRA]A- (Stable)	-
2	Term Loan	Long Term	512.0	506.7	[ICRA]A+ (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
NCD	Simple
Term Loan	Moderately complex

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: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE822V07012	NCD	Dec 31, 2021	9.5%	March 2038	250.00	[ICRA]A+ (Stable)
INE822V07012	NCD	Jan 5, 2021	9.5%	March 2038	550.00	[ICRA]A+ (Stable)
NA	Term Loan	Nov 2020	-	March 2038	512.00	[ICRA]A+ (Stable)

Source: BDHPL and ICRA

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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