August 26, 2022

Guruvayoor Infrastructure Private Limited: Rating downgraded to [ICRA]BB@ from [ICRA]BBB-@; continues to be on Rating Watch with Negative implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Term loan	212.00	212.00	[ICRA]BB@; Rating downgraded from [ICRA]BBB-@ and continues to be on Watch with Negative Implications
Non-convertible debenture	53.00	53.00	[ICRA]BB@; Rating downgraded from [ICRA]BBB-@ and continues to be on Watch with Negative Implications
Total	**265.00**	**265.00**	

@= Under Watch with Negative Implications

**Instrument details are provided in Annexure-I*

Rationale

The revision of Guruvayoor Infrastructure Private Limited's (GIPL) rating factors in the increased operations and maintenance (O&M) risk in the project following certain adverse observations made by the IE/ National Highways Authority of India (NHAI) on the deficiencies in the ongoing major maintenance (MM) activity. While GIPL expects the MM works to be completed shortly, non-adherence of the timelines/deficiencies in quality could result in an adverse action from the authority and would be a key monitorable. The expenditure towards MM (estimated at Rs. 116 crore) and rectification of the damage on the project stretch due to floods (estimated at Rs. 40 crore) could put pressure on the company's liquidity position in absence of adequate insurance compensation. While it had raised an insurance claim, the same has not been fully accepted yet by the insurance company, and is currently under arbitration. Therefore, GIPL's liquidity buffer has reduced considerably and there is a risk of liquidity mismatch with the available free liquidity of Rs. 30 crore (excluding funds reserved for debt service and claim money received from Government of Kerala (GoK) which is kept aside) being barely sufficient to meet the balance MM cost (estimated at Rs. 35-38 crore) as of June 2022. Further, in case if the actual MM is higher than estimated or if there is any material penalty imposed by NHAI, there could be pressure on GIPL's liquidity position.

The rating continues to remain on Watch with Negative Implications pending the outcome of the Central Bureau of Investigation's (CBI) First Information Report (FIR) against GIPL. The FIR had alleged criminal conspiracy and undue gain of Rs. 102.44 crore by the company during 2006 to 2016, in which it allegedly violated certain terms of the Concession Agreement (CA). ICRA will continue to monitor the developments with respect to the resolution of the aforementioned FIR and assess its implications on the company's credit profile. Downward pressure on the rating could arise in case of any negative outcome of the CBI investigation for GIPL.

The rating remains constrained by the inherent risks in the build-operate-transfer (BOT) toll projects such as resistance of users to pay toll, political acceptability of toll rate hikes, likelihood of toll leakages, etc. GIPL faced agitations from the local users at the time of the commercial operations date (COD). To avoid disruption to tolling, the GoK issued an order for issuance of free passes to certain category of local users and agreed to reimburse GIPL for the loss. The company has received Rs. Rs. 27.35 crore from GoK against Rs. 132.79-crore claim, and has requested for review of claims. Further, Kerala State Road Transport Corporation (KSRTC) buses have not being paying toll from COD, despite the order from the Supreme Court of India in October 2015 to obtain passes for their vehicles. ICRA has noted that GIPL is required to pay negative grant worth Rs. 200 crore in five instalments of Rs. 40 crore each from FY2017 to FY2021 to the NHAI. GIPL had requested NHAI to adjust the negative grant instalments against the pending dues from the GoK and KSRTC. GIPL had also filed claims against NHAI, and NHAI had also filed counterclaims. ICRA, in its base case projections, has assumed that the negative grant payable to NHAI will be adjusted against dues from the GoK and KSRTC. If NHAI does not allow for this adjustment, the credit profile could come under stress as it would result in substantial funding gap and strain its overall liquidity position. The rating is also sensitive to movement in interest rates, owing to variable interest rate with the option of spread reset and the WPI-linked escalation in toll rates, which could limit the growth in toll collections during periods of low WPI rate.

The rating, however, continues to favourably factor in the tolling track record of more than ten years, importance of the project stretch, and healthy increase in toll collection by ~11% in FY2022 to ~Rs. 117.0 crore. The average daily toll collections increased to Rs. 0.41 crore per day in June 2022 from Rs. 0.35 crore per day in March 2022 and Rs. 0.29 crore per day in March 2021 owing to the gradual recovery in the traffic movement post the outbreak of the pandemic and healthy hikes in toll rates. The project stretch is a part of National Highway 544 (earlier known as NH-47), which passes through Kerala and Tamil Nadu, connecting Coimbatore and Kochi with an established traffic density dominated by passenger vehicles. The rating also considers the presence of funded debt service reserve account (DSRA) of Rs. 20 crore and the financial flexibility arising out of tail period of 3.5 years.

ICRA notes that GIPL has availed debt from Bharat Road Network Limited (BRNL, Rs. 5.8-crore of unsecured debentures as on March 31, 2022), and SREI Equipment Finance Ltd (SFEL, Rs. 170.5-crore unsecured loans as on March 31, 2022) in the past to meet the interest on sub-debt and extend inter corporate deposits (ICDs). GIPL repaid ~Rs. 96.5 crore of loans from SFEL in FY2021, following recovery of Rs. 98 crore of ICDs, which were earlier advanced to other companies. ICRA is given to understand that outstanding loans (from BRNL and SFEL) are unsecured and subservient to the project loans. Further, these loans are to be repaid from the surplus account after meeting the restrictive payment conditions as per the sanction terms of senior lenders. Going forward, any funding support or loans and advances to group/non-group companies would remain a key monitorable. Any non-adherence to cash flow waterfall will also be a negative from the credit perspective.

Key rating drivers and their description

Credit strengths

Operational nature of the project – The project stretch has been operational since February 9, 2012, post the receipt of the provisional commercial operations date (PCOD) in December 2011. The final COD has since been received on April 18, 2016, however, tolling operations could only be commenced in February 2012 due to protest by locals over tolling of the project stretch. At present, the project has been operational with regular toll hikes over the last six years.

Established traffic and toll collection track record – The project stretch has an established tolling record of over ten years with tolling commencing from December 2011. It has witnessed a CAGR of 3.79% in toll collections during FY2015-FY2022. Further, the toll collection has increased by 11% in FY2022 to ~Rs. 117.0 crore from ~Rs. 105.4 crore in FY2021. The average daily toll collections increased to Rs. 0.41 crore per day in June 2022 from Rs. 0.35 crore per day in March 2022 and Rs. 0.29 crore per day in March 2021 owing to the gradual recovery in the traffic movement post the outbreak of the pandemic and favourable hikes in toll rates.

Presence of DSRA for the term loan and adequate tail period – GIPL has a funded DSRA of Rs. 20 crore for the term loan, and liquid funds of ~Rs. 57.78 crore as on June 30, 2022. However, the same includes Rs. 27.35 crore received against Rs. 132.79 crore claim from GoK, which is currently kept aside by the company since they have further requested for review of claims. Along with this, the liquidity cushion is expected to reduce following the expenditure towards the ongoing MM. The tail period of 3.5 years also provides financial flexibility for GIPL.

Credit challenges

Increased O&M risk and its impact on liquidity – GIPL is required to undertake two MM cycles during the remaining concession period – the first cycle was due in FY2023-FY2024. However, the same has been preponed to FY2022-FY2023. Further, the floods in FY2019 and FY2020 had damaged a part of the project stretch. GIPL had incurred ~Rs. 40 crore in Q4 FY2021 for the rectification of the damage on the project stretch caused by floods (in FY2019 and FY2020), which has been funded from the available surplus. While the company had claimed the amount from insurance, the same has not been fully accepted yet, with an ongoing arbitration with the insurance company for the claimed amount. The preponement of MM activity involved an expected outflow of Rs. 116 crore in FY2022-FY2023, of which ~Rs. 79 crore had been incurred till June 2022, while the balance Rs. 37 crore is expected to be incurred over the next two-three months, which is likely to exert pressure on its liquidity cushion. Additionally, increased O&M risk in the project following certain adverse observations made by the IE/ NHAI on the deficiencies in the ongoing MM activity could result in an adverse action from the authority and would be a key monitorable.

Long pending dispute with GoK and KSRTC; negative grant payable to NHAI – GIPL has been issuing passes to local users of the project stretch at discounted rates in accordance with the order issued by the GoK. The difference between the normal toll and discounted toll fare was to be reimbursed by the GoK. However, substantial payments from GoK and KSRTC remain outstanding as on date. In May 2022, it received Rs. 27.35 crore against Rs. 132.79-crore claim from GoK, which is currently kept aside by the company since they have further requested for review of claims.

GIPL is required to pay negative grant worth Rs. 200 crore in five instalments of Rs. 40 crore each from FY2017 to FY2021 to the NHAI. It had requested NHAI to adjust the negative grant instalments against the pending dues from the GoK and KSRTC. Further, GIPL had filed claims against NHAI for losses due to delay in project commissioning on account of factors attributable to the latter, and NHAI had also filed counterclaims. While the matter is under arbitration, based on mutual agreement, the case is currently being heard by the NHAI's conciliation committee. ICRA, while assessing the credit risk, has assumed that the negative grant payable to NHAI will be adjusted against dues from the GoK and KSRTC. If NHAI does not allow for this adjustment, the resultant burden on GIPL's cash flows would be a credit negative.

Risks inherent to toll road projects and interest rate risk – The project remains exposed to the risks inherent in BOT (toll) road projects, including risks arising from variation in traffic volume over the project stretch and its dependence on the economic activity in the surrounding regions. Moreover, it is vulnerable to movement in WPI (for toll rate hike), political acceptability of toll rate hikes over the concession period, development/improvement of alternate routes and likelihood of toll leakages. Any reduction in either of these will adversely impact toll collections. Further, the project's cash flows and profitability remain exposed to the interest rate risk due to the floating nature of the interest rate.

Liquidity position: Stretched

GIPL's liquidity is stretched considering that the available surplus will be barely sufficient to meet the balance MM expenditure planned to be incurred over the next one-two months, which along with regular O&M expenditure and debt servicing obligations could put pressure on its liquidity. As of June 2022, it had Rs. 77.82 crore of cash and liquid investments, which included DSRA of Rs. 20 crore for the term loan, and Rs. 27.35 crore received against claim from GoK, which is currently set aside by the company since they have further requested for review of claims. The cash flow from operations are expected to be Rs. 117 crore (excluding MM expense, estimated for FY2023) against the debt servicing obligation of Rs. 92.7 crore (estimated) and residual MM expense of Rs. 42 crore in FY2023.

Rating sensitivities

Positive factors – Significant improvement in toll collections, on a sustained basis, and favourable resolution of ongoing disputes including those with NHAI/GoK/KSRTC resulting in improvement in GIPL's coverage and liquidity can result in a positive rating action. Additionally, outcome of the CBI investigation without any material liability on the company would also be important for a positive rating action.

Negative factors – Negative pressure on the rating could arise if there is any major penalty from NHAI, or if it does not allow for adjusting premium payments against pending claims from the GoK and KSRTC, or any unfavourable outcome of the CBI investigation. Additionally, if the ongoing periodic maintenance expenditure is higher than expected, or if toll collections are lower than expected, on a sustained basis, thereby adversely impacting the coverage indicators and liquidity position could also lead to a downward revision in rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for BOT (Toll) Roads
Parent/Group support	NA
Consolidation/Standalone	Standalone

About the company

GIPL is a special purpose vehicle (SPV) formed for four-laning of Thrissur-Angamali section of NH-47 (in Kerala) from km 270.0 to km 316.00, and improvement, operation and maintenance from km 316.7 to km 342.0 on a build, operate and transfer (BOT) toll basis. The project was secured by a consortium of KMC and SREI with equity interest of 51:49, respectively. At present, the SPV is held by Bharat Road Network Limited (BRNL). In FY2018, BRNL took over 25% stake from KMC, thereby increasing its stake from 49% to 74%. Formal approval from the NHAI is pending for transfer of the balance 26% stake from KMC to BRNL for which the discussions are still under way. Although currently it owns 74% stake, 100% of economic interest in GIPL is transferred to BRNL. The project achieved PCOD in December 2011. However, tolling operations could only be commenced in February 2012 due to protest by locals over tolling of project stretch. The total project cost was Rs. 726 crore, which was funded by the promoter's contribution of Rs. 226 crore (Rs. 169 crore as equity and Rs. 57 crore as unsecured loans from promoters) and external debt of Rs. 465 crore.

Key financial indicators (audited)

GIPL	FY2021	FY2022
Operating income	126.8	123.1
PAT	-16.8	-48.7
OPBDIT/OI	29.81%	18.53%
PAT/OI	-13.28%	-39.52%
Total outside liabilities/Tangible net worth (times)	-9476.47	-14.65
Total debt/OPBDIT (times)	12.29	19.04
Interest coverage (times)*	1.00	0.54

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

**Lower interest coverage ratio due to provisioning of Rs. 77.98 crore and Rs. 55.47 crore against MM*

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 of Mar 31, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022		Date & rating in FY2021		Date & rating in FY2020
					Aug 26, 2022	Sep 24, 2021	Apr 14, 2021	Aug 21, 2020	Jul 02, 2020	May 17, 2019
1	Term loan	Long-term	212.00	171.82	**[ICRA]BB @**	**[ICRA]BBB- @**	**[ICRA]BBB @**	**[ICRA]BBB @**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**
2	Non – convertible debenture	Long-term	53.00	41.20	**[ICRA]BB @**	**[ICRA]BBB- @**	**[ICRA]BBB @**	**[ICRA]BBB @**	**[ICRA]BBB (Stable)**	**[ICRA]BBB (Stable)**

@= Under Watch with Negative Implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Term loan	Simple
Non-convertible debenture	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: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term Loan	FY2017	NA	FY2025	212.0	[ICRA]BB@
INE647L07022	NCD	Sep 9, 2014	11.0%	March 31, 2025	26.5	[ICRA]BB@
INE647L07014	NCD	Sep 9, 2014	11.0%	March 31, 2025	26.5	[ICRA]BB@

Source: Company

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

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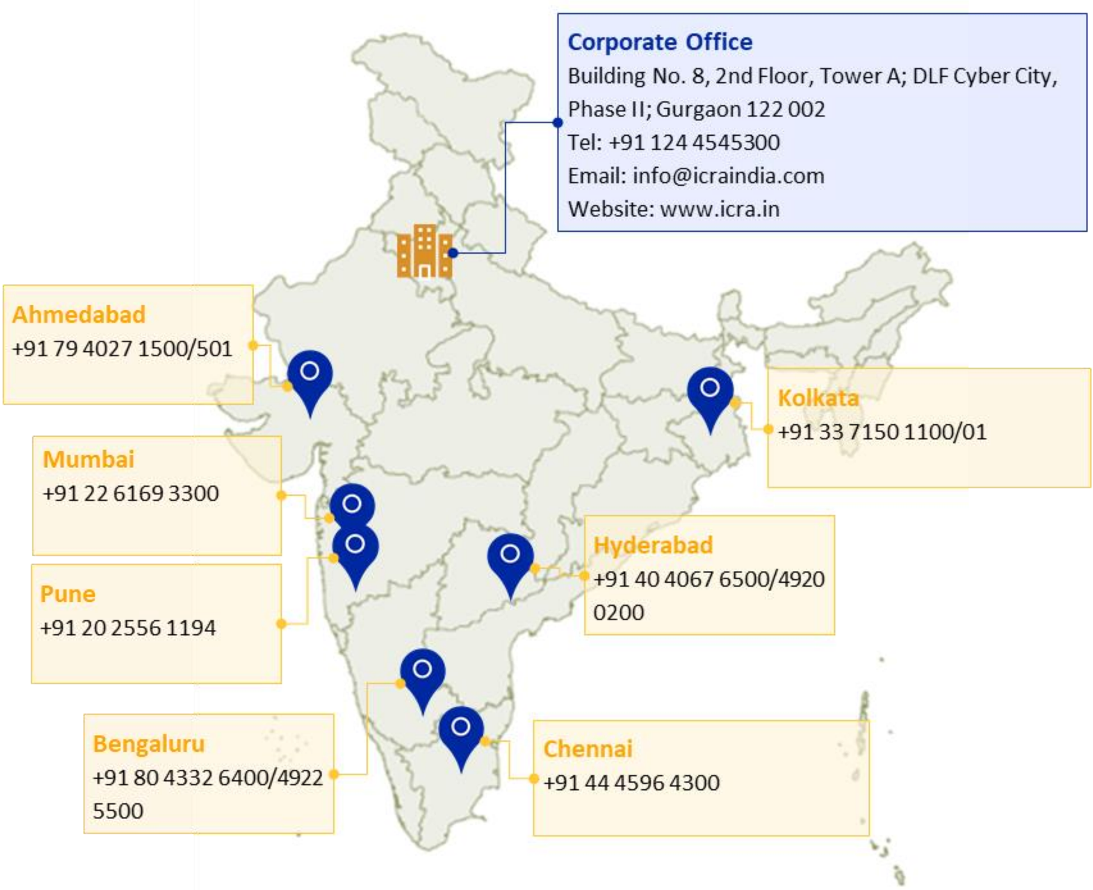

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