

December 02, 2022

Poondiankuppam-Sattanathapuram Section 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 loan	985.47	985.47	[ICRA]A (Stable); reaffirmed
Total	985.47	985.47	

*Instrument details are provided in Annexure I

Rationale

The rating reaffirmation for Poondiankuppam-Sattanathapuram Section Private Limited (PSSPL) continues to derive comfort from the favourable financial profile and operational track record of its sponsor and engineering, procurement, and construction (EPC) contractor – Oriental Structural Engineers Private Limited (OSEPL, rated [ICRA]AA (Stable)/[ICRA]A1+). Further, OSEPL has provided undertaking for cost overrun during the construction phase, any shortfall in O&M expenses and corporate guarantee to meet the shortfall in the event of termination.

The rating favourably factors in the inherent benefits of the hybrid-annuity based nature of the project, including upfront availability of right of way¹, de-scoping of right of way (RoW) pending beyond 180 days from the appointed date, inflation-linked² revisions to bid for project cost during the construction period and a relatively moderate funding risk with 40% of the bid project cost (BPC) to be funded by the authority during the construction period in the form of grants and debt tie-up in place. The company received its appointed date in January 2022 and has attained nearly 30% project completion as of October 2022. The rating positively considers the credit support provided by the structural features of the debt, including the presence of escrow, a cash flow waterfall mechanism, provision for the creation of reserves and a restricted payment clause with a minimum DSCR of 1.15 times. The provision for reserves includes a debt service reserve account (DSRA) equivalent to six months' principal and interest (25% to be created upfront and the remaining to be created out of the first two annuities), a major maintenance reserve (MMR) and reserves to meet regular operations and maintenance (O&M) and interest obligations till the next scheduled annuity. The rating notes the stable revenue stream expected post the commissioning of the project with 60% of the inflation-adjusted BPC being paid out as annuity, along with interest at an average of one-year MCLR of the top five scheduled commercial banks + 1.25% and the inflation-adjusted O&M cost bid over the 15-year operations period by the project owner, National Highways Authority of India [NHAI, rated [ICRA]AAA(Stable)], which is a strong counterparty.

The rating is, however, constrained by the execution risks in under-construction projects, including time and cost overruns. Nevertheless, the risk is mitigated, to an extent, by the fixed-price and fixed-time nature of the EPC contract that has been entered with OSEPL, and the strong project execution capabilities of OSEPL. The company's ability to commission the project in a timely manner and within the budgeted costs would remain important from the credit perspective. While PSSPL has a sizeable equity requirement of ~Rs. 246 crore for funding the project, OSEPL's healthy financial profile provides comfort for timely equity infusion. The promoters infused nearly 50% of the equity requirement as of October 2022. Post commissioning, the company will have to undertake O&M of the project stretch as per the concession agreement to avoid any deduction from annuities. Any significant deduction from annuities or increase in routine and major maintenance (MM) from the budgeted level could impact its debt servicing coverage ratio. PSSPL's cash flows are exposed to inflation risks as O&M receipts, though

¹ At least 80% prior to appointed date

² Based on annual change in price index multiple (PMI) from the base year – PMI is the weighted average of Wholesale Price Index (WPI) and Consumer Price Index (CPI) (IW) in the ratio of 70:30

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 PSSPL will benefit from the strong execution capabilities and financial profile of the sponsor and EPC contractor—OSEPL.

Key rating drivers and their description

Credit strengths

Established track record and strong financial profile of the sponsor and EPC contractor – PSSPL is a subsidiary of OSEPL, which has a long experience in the road construction segment and has been executing road projects since 1971. OSEPL is also the EPC contractor executing this project and the contract is proposed to be on a fixed-price, fixed-time basis, which provides comfort, given its track record of project execution within the budgeted time and cost. OSEPL has provided an undertaking for cost overrun during the construction phase, any shortfall in O&M expenses and corporate guarantee to meet the shortfall in the event of termination. Due to these factors, PSSPL has a strong linkage with OSEPL. OSEPL has a strong financial profile, which is supported by a regular stream of distribution from Oriental InfraTrust (OSEPL and its subsidiary Oriental Tollway Pvt Ltd together hold 60% stake in Oriental InfraTrust).

Lower inherent risks in HAM projects from NHAI – The inherent benefits of the hybrid annuity-based nature of the project include an upfront availability of RoW, automatic de-scoping of RoW pending beyond 180 days from the appointed date and inflation-linked revisions to bid for project cost during the construction period. As of September 2022, the company already had RoW available for ~100% of the requisite land in advanced stages. Moreover, it faces a relatively lower equity mobilisation risk with 40% of the BPC to be funded by the authority during the construction period in the form of a grant. A stable revenue stream post the commissioning of the project with 60% of the inflation-adjusted BPC being paid out as annuity, along with interest at bank rate plus 300 bps and the inflation-adjusted O&M cost bid over the 15-year operations period by the NHAI, provides comfort.

Healthy coverage indicators and presence of structural features – The credit profile is supported by undertaking towards cost overrun during the construction phase, any shortfall in O&M expenses and corporate guarantee to meet any shortfall in debt servicing until the receipt of the first two annuities. Once operational, PSSPL is expected to have a healthy debt service coverage ratio during the debt tenure. Structural features of the debt, such as the presence of escrow, a cash flow waterfall mechanism, provisions for DSRA (25% of the principal and interest for six months to be created upfront and the remaining to be created out of the first two annuities) and creation of MMR, presence of reserves to meet regular O&M and interest obligations till the next scheduled annuity, cash sweep and restricted payment clause with a minimum DSCR of 1.15 times, provide comfort.

Credit challenges

Execution risk related to under-construction project – The appointed date was received on January 20, 2022, and as of October 2022, nearly 30% of the project has been completed. Thus, the company is exposed to project execution risks, given its nascent stages of execution. However, the risk is mitigated to an extent by the fixed-price, fixed-time contract, and strong project execution capabilities of its sponsor/EPC contractor - OSEPL. Its ability to commission the project in a timely manner and within the budgeted cost would be important from the credit perspective. The total estimated project cost of Rs. 2,080.0 crore is planned to be funded by the NHAI's grant of Rs. 848.2 crore, external debt (term loans) of Rs. 985.5 crore and equity/promoter contribution of Rs. 246.4 crore. While PSSPL has a sizeable equity requirement for funding the project, OSEPL's healthy financial profile provides comfort for timely equity infusion. As of October 2022, nearly 50% of the total promoter's contribution has been infused in the form of equity, while the rest would be infused in a phased manner during project execution, in the form of non-convertible debentures.

Undertaking O&M as per concession requirement, cash flows and returns exposed to inflation risks – Post commissioning, the company will have to undertake the O&M of the project stretch as per the concession agreement to avoid any deductions from annuities. Any significant deduction from annuities or increase in routine and MM from the budgeted level could impact its debt servicing coverage ratio. PSSPL's cash flows are exposed to inflation risks as the O&M receipts, though linked to inflation (70% WPI and 30% CPI), may not be adequate to compensate for the increase in the O&M/periodic maintenance expenses. Hence, adequate and within budgeted O&M will be a key rating sensitivity during the operations stage.

Liquidity position: Adequate

As the project is under construction, the company does not maintain any significant liquidity. However, the liquidity position is supported by an undrawn sanctioned line of credit, grants receivable from the NHAI and equity infusion from OSEPL.

Rating sensitivities

Positive factors – The rating could be upgraded if the project achieves significant progress without any time and cost overruns.

Negative factors – Negative pressure on the rating could arise if there are any significant time and cost overruns, or if a material deterioration in the credit profile of the sponsor results in heightened equity mobilisation risk, or if there are delays in the receipt of grants increases the project's funding risk.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Roads - Hybrid Annuity
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Poondiankuppam-Sattanathapuram Section Private Limited is a special purpose vehicle (SPV) promoted by Oriental Structural Engineers Private Limited to undertake the four-laning of the existing road on the Poondiankuppam to Sattanathapuram (design Ch km 67.000 to km 123.800) section of NH 45 A (new NH-332) stretch in Tamil Nadu, under NHDP Phase IV, under the design, built, operate and transfer (DBOT) hybrid annuity model. The concession agreement was signed on May 18, 2021, and the appointed date was received on January 20, 2022. The construction period for the project is two years from the appointed date, and the operations period is 15 years from the commercial operations date (COD). The total estimated project cost of Rs. 2,080.0 crore is planned to be funded by the NHAI's grant of Rs. 848.2 crore, external debt of Rs. 985.5 crore and promoter's contribution/equity of Rs. 246.4 crore.

Key financial indicators

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

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 October 31, 2022 (Rs. crore)	Date & rating on	FY2022	FY2022	FY2021
					December 02, 2022	December 27, 2021	--	--
1	Fund-based facility – Term loan	Long term	985.47	0	[ICRA]A (Stable)	[ICRA]A (Stable)	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based facility – Term loan	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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based facility – Term loan	November 2021	NA	*	985.47	[ICRA]A (Stable)

Source: PSSPL and ICRA; *linked with the COD of the project

Note: Of the total sanctioned term loan of Rs. 985.47 crore, the mobilisation advance bank guarantee sub-limit is Rs. 233.24 crore

[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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Branches



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