

December 20, 2022

Jangareddygudem Projects Private Limited: [ICRA]A-(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	235.00	[ICRA]A- (Stable); Assigned
Total	235.00	

*Instrument details are provided in Annexure-I

Rationale

The assigned rating for Jangareddygudem Projects Private Limited (JPPL) favourably factors in the inherent benefits of the hybrid-annuity based nature of the project including upfront availability of right of way¹ (RoW), automatic de-scoping of RoW pending beyond 180 days from the appointed date, inflation-linked² revisions to the bid project cost (BPC) during the construction period. The rating notes the relatively lower equity mobilisation risk with 40% of the BPC to be funded by the authority during the construction period in the form of grant. JPPL is promoted by Bekem Infra Projects Private Limited (Bekem) and Sri Avantika Contractors (I) Limited (SACL) in the ratio of 51:49 to undertake the hybrid annuity mode (HAM) project and have provided joint and several corporate guarantee for availing the loan from the lender till receipt of the first annuity. Although the equity infusion risk is mitigated with upfront infusion of 50% of the equity, ICRA expects Bekem to infuse the funds in JPPL, in a timely manner, for the project completion if there is any delay in equity infusion from SACL. ICRA takes note of the corporate guarantee provided by one of the sponsors, Bekem, which is also the engineering, procurement and construction (EPC) contractor for the project. Further, Bekem has provided an undertaking towards financial support in case of cost overrun during the construction phase, any shortfall in operations and maintenance (O&M) expenses and debt servicing in the operational phase as per the lender's approved base case business plan.

The rating factors in the 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 plus 125 bps and O&M payments (adjusted for inflation) over the term of the concession from the project owner and annuity provider, National Highway Authority of India (NHAI, rated [ICRA]AAA(Stable)), which is a key Central Government entity entrusted with the responsibility of development and maintenance of India's national highway programme.

The rating, however, remains constrained by the execution risks in the project, given that the construction activity has commenced only two months back. The risk is mitigated to some extent by the fixed-price, fixed-time contract and strong project execution capabilities of Bekem. The company's ability to commission the project in a timely manner and within the budgeted costs would remain important from the credit perspective. Post-commissioning, it would have to ensure healthy lane availability to avoid any deductions from the annuity amount. Any significant deductions from annuities or increase in routine and major maintenance (MM) from the budgeted level could impact its debt servicing coverage ratio. Timely support from promoters to fund any shortfalls due to delays in grant or any cost overruns during the construction phase will remain crucial. ICRA's rating factors in the exposure of JPPL'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 lender's MCLR. Further, JPPL's cash flows are exposed to inflation risk as O&M receipts,

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

though linked to 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 JPPL will benefit from the strong execution capabilities of the sponsor and EPC contractor, Bekem.

Key rating drivers and their description

Credit strengths

Lower inherent risks in HAM projects from the NHAI – The inherent benefits of the HAM project includes an upfront availability of RoW, automatic de-scoping of RoW pending beyond 180 days from the appointed date and inflation-linked revisions to the BPC during the construction period. 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 after 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, NHAI, which is a strong counterparty, offer comfort.

Comfortable projected debt coverage indicators for the project – The credit profile is supported by the undertaking towards cost overrun during the construction phase, and any shortfall in O&M expenses from Bekem. Once operational, JPPL 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 (6 months P+I), creation of a major maintenance reserve (MMR) and restricted payment clause with a minimum DSCR of 1.15 times, provide comfort.

Credit challenges

Execution risk related to under-construction project – The company is exposed to the project execution risk, given the nascent stage of project progress. However, the risk is expected to be mitigated to an extent by the fixed-price, fixed-time contract and strong project execution capabilities of its EPC contractor, Bekem, which has more than two decades of experience in executing complex hydro mechanical works and has limited experience in execution of road projects. ICRA expects Bekem to complete the project in a timely manner and within the budgeted cost, given that the project stretch is a plain terrain and does not involve any complex structures.

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 its annuities. Any significant deduction from annuities or increase in routine and MM expenses from the budgeted level could impact its debt servicing coverage ratio. JPPL'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

JPPL's liquidity position is adequate. The total project cost of Rs. 559.66 crore is proposed to be funded by equity of Rs. 84.54 crore (15% of the project cost), NHAI's grant including inflation adjustment of Rs. 240.12 crore (43%) and debt of Rs. 235 crore (42%). Moreover, the undertaking provided by Bekem towards financial support in case of a cost overrun or delay in NHAI's grant during the construction phase, and any shortfall in the O&M expenses as well as debt servicing in the operational phase as per the lender's approved base case business plan, provides comfort.

Rating sensitivities

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

Negative factors – Pressure on the rating could arise if the project’s progress is delayed, resulting in significant time and cost overruns, or if there is a deterioration in the credit profile of the EPC contractor/sponsor thereby heightening the equity mobilisation risk, or if delays in the receipt of grant or equity infusion increase the funding risks for the project.

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

Incorporated in October 2021, Jangareddygudem Projects Private Limited (JPPL) is a special purpose vehicle promoted by Bekem Infra Projects Private Limited (Bekem) and Sri Avantika Contractors (I) Limited (SACL) in the ratio of 51:49 to undertake development, maintenance and management works of four-laning of the access controlled new greenfield highway section of NH-365BG of length 27.428 km from Recherla village to Gurvaygudem village (Design Chainage 105+236 to 132+664) under Inter Corridor Route, under Bharatmala Pariyojana, Phase-I in Andhra Pradesh (Package-IV) on HAM basis.

JPPL was awarded the project through the competitive bidding process, as it emerged the lowest bidder with BPC of Rs. 517.05 crore and the first year O&M cost of Rs. 4.70 crore. The concession agreement for the project has been signed on January 27, 2022. The project was awarded by the NHAI on September 15, 2021, for a concession period of 17 years including construction period of two years (730 days) beginning from September 26, 2022 (appointed date).

Key financial indicators

Key financial indicators are not applicable as it 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 November 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
				Dec 20, 2022	-	-	-
1 Term loans	Long term	235.0	-*	[ICRA]A-(Stable)	-	-	-

*- Not disbursed yet

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – 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	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	June 2022	NA	April 2037	235.00	[ICRA]A-(Stable)

Source: Company

[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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About ICRA Limited:

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Branches



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