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# DP Jain Ujjain Package (Annuity) Road Projects 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** | 88.11 | 71.87 | [ICRA]A (Stable); reaffirmed |
| **Total** | **88.11** | **71.87** | |

**Instrument details are provided in Annexure-I*

## Rationale

The rating reaffirmation favourably factors in DP Jain Ujjain Package (Annuity) Road Projects Private Limited's (DPJURPL) established operational track record with receipt of 17 semi-annuities (out of a total of 26) till date without any significant delays or deductions. The rating considers the stable revenue profile in the form of fixed semi-annuities from the project authority and annuity provider, Madhya Pradesh Road Development Corporation Ltd (MPRDC). The rating derives comfort from the presence of structural features such as a well-defined cash flow escrow waterfall mechanism and debt service reserve account (DSRA) of Rs. 14.0 crore (equivalent to more than six months of debt obligation), wherein the lender can utilise the DSRA for debt servicing on/before the due date (without any approval from the borrower or any other third party) in case of any delays in annuity receipts from the authority (MPRDC). Further, there is an adequate gap of three months between the annuity receipt date and the scheduled principal repayment date (the maximum delay witnessed in annuity payments in the past is 44 days except for the first semi-annuity) in case of any delays in annuity payments.

The rating is, however, constrained by the vulnerability of the company's cash flow to any significant delays in annuity receipt. Nevertheless, this is primarily mitigated by the ample cushion between the annuity receipt date and the scheduled principal repayment date, along with the presence of DSRA as defined above. That said, any significant deterioration in the counterparty's profile and/or inadequate budgetary allocations from the Government of Madhya Pradesh would remain the key rating sensitivities. Further, the ability of the operations and maintenance (O&M) contractor in ensuring proper maintenance of roads will be critical to avoid any deductions in annuity receipts for DPJURPL going forward. DP Jain & Co Infrastructure Pvt Ltd (DPJIPL) is appointed as the O&M contractor for taking up routine and major maintenance (MM) activities for the entire concession period with a fixed-price contract, mitigating the O&M cost overrun risks to an extent. The rating is constrained by the exposure of the company's cash flows to interest rate risk, given the floating nature of interest rates for the project loan.

The Stable outlook on the rating reflects the receipt of annuity, in a timely manner, without any material deductions, which supports the project's coverage metrics.

## Key rating drivers and their description

### Credit strengths

**Annuity nature of the project eliminates market risks** – The project has a stable revenue stream with Rs. 14.72 crore of semi-annuities received from MPRDC. The company has received 17 semi-annuity payments without any major delays or significant deductions. It has a satisfactory track record of payments spanning more than eight years.

**Presence of structural features like DSRA provides comfort** – The company is maintaining DSRA equivalent to six months' debt servicing obligations of Rs. 14 crore as Fixed Deposits with the lender, wherein the lender can utilise the DSRA for debt servicing on/before the due date (without any approval from the borrower or any other third party) in case of any delays in annuity receipts from the authority (MPRDC).

**Major maintenance reserve is being built up in line with fixed-price O&M contract** – The company has completed the first MM activity in FY2021 within the budgeted costs and the next MM is due in FY2026 with a total cost of ~Rs. 8.9 crore and has an MM reserve of Rs. 4.37 crore as on March 31, 2022. Increase in MM expenses, if any, can be comfortably met as the debt repayment will be completed before the next MM is due.

## Credit challenges

**Project returns exposed to interest rate risk** – DPJURPL's cash flows are exposed to interest rate risk, considering the floating nature of interest rates for the project loan.

**Exposed to counterparty risk** – The company is exposed to counterparty risk, given that it is a state annuity project, which may give rise to delays in receipt of semi-annuity payments. However, timely annuity payment over the years with delay in the range of 0-15 days over the past two years, mitigates the risk to an extent. Further, DSRA of Rs. 14 crore (equivalent to more than six months' debt servicing obligations) provides a liquidity buffer in case of delay in annuity receipt. Moreover, there is a three-month gap between annuity due dates (April 30 and October 30) and term loan repayment dates (January 31 and July 31) mitigating the timely repayment risk in case of any delay in annuity receipts.

**Lane availability to be ensured for annuity payments** – The company is required to undertake O&M, in a timely manner, to ensure sufficient lane availability and receipt of annuity with minimal deductions. Further, any significant increase in O&M cost or MM expense adversely impacting the liquidity and debt coverage metrics remains a key rating monitorable.

## Liquidity position: Adequate

DPJURPL's liquidity position is adequate. The company has repayment obligation of Rs. 16.96 crore in FY2023, which can be comfortably met through its estimated cash flow from operations. The liquidity is supported by the presence of DSRA of Rs. 14.0 crore (equivalent to more than six months' debt servicing obligations) as on October 31, 2022 and a three-month buffer between the annuity receipt date and the repayment due date of the term loan.

## Rating sensitivities

**Positive factors** – ICRA could upgrade DPJURPL's rating if it reports a consistent track record of timely receipt of semi-annuity payments without any deductions, along with an improvement in cumulative DSCR to more than 1.10 times on a sustained basis.

**Negative factors** – Pressure on the rating could arise if there are significant delays or deductions in annuity payments, or if there is significant increase in O&M costs leading to weakened liquidity or material reduction in coverage metrics. Additionally, any non-adherence to the debt structure may also trigger downward pressure on the rating.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>Rating Methodology for BOT (Annuity) Roads |
| **Parent/Group support** | Not Applicable |
| **Consolidation/Standalone** | Standalone |

## About the company

Incorporated in 2011, DPJUPL is a special purpose vehicle (SPV) for the strengthening, widening, maintenance and operation of the Devgularjod – Arandia (34.96 km), Pipliya – Manasa (40.19 km) and Salsalai – Gulana – Gulai Railway Station (19.31 km) roads in Madhya Pradesh. The project was awarded by MPRDC on a BOT (Annuity) basis with a concession period of 15 years, including a construction period of two years. The project achieved completion on April 30,2014 ahead of the scheduled commercial operation date (SCOD) of September 06, 2014. It is entitled to annuity payments of Rs. 14.72 crore from MPRDC on a semi-annual basis till April 2027. The SPV has received 17 annuity instalments (out of total 26) till date in a timely manner.

### Key financial indicators (audited)

| | FY2021 | FY2022 |
|---|---|---|
| **Operating income (Rs. crore)** | 24.1 | 10.0 |
| **PAT (Rs. crore)** | -1.3 | 1.1 |
| **OPBDIT/OI** | 35.3% | 87.0% |
| **PAT/OI** | -5.5% | 11.2% |
| **Total outside liabilities/Tangible net worth (times)** | 1.9 | 1.6 |
| **Total debt/OPBDIT (times)** | 11.5 | 9.3 |
| **Interest coverage (times)** | 0.8 | 1.1 |

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

*Note: DPJUPL follows Ind AS and key financial ratios are not representative of actual cash flows*

## 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 Sep 30, 2022 (Rs. crore) | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 | Date & rating in FY2020 |
| | | | | | Jan 06, 2023 | Nov 29, 2021 | - | - |
| 1 | Term loan | Long-term | 71.87 | 71.87 | [ICRA]A (Stable) | [ICRA]A (Stable) | - | - |

## 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** | Nov 2015 | 9.75% | July 2025 | 71.87 | [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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