

February 13, 2023

Rajamahendravaram Greenfield Highway Private Limited: [ICRA]A-(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. Crore)	Rating Action
Long-term: Fund-based – Term loan	286.00#	[ICRA]A- (Stable); Assigned
Total	286.00	

*Instrument details are provided in Annexure-I; #- includes Rs. 62.2-crore mobilisation advance loan, as a sublimit

Rationale

The assigned rating for Rajamahendravaram Highway Projects Private Limited (RGHPL) 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 a grant. RGHPL is promoted by Bekem Infra Projects Private Limited (Bekem, rated [ICRA]A(Stable)) 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 guarantees for availing the loan from the lender till the receipt of the second annuity. However, the equity infusion risk is mitigated by the upfront infusion of 25% of the equity. ICRA expects Bekem to infuse funds in RGHPL, in a timely manner, for project completion in case there is any delay in equity infusion from SACL. ICRA notes the corporate guarantee for the rated debt provided by one of the sponsors, Bekem, which is 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 an average of the 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 responsible for the development and maintenance of India's national highway programme.

The rating, however, remains constrained by the execution risks in the project, given the nascent stage of project execution. 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 RGHPL'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, the company's cash flows are exposed to inflation risk as O&M receipts, though linked to inflation

¹ At least 80% prior to the 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

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 RGHPL 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.

Healthy sponsor profile - RGHPL is promoted by Bekem (rated [ICRA]A; Stable) and SACL. Bekem has more than two decades of experience in executing hydro mechanical works. Although it has limited experience in road project execution, the company's strong project execution capability is expected to mitigate the risk to an extent. The rating draws comfort from sponsors' liquidity and healthy financial risk profile.

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, RGHPL 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. RGHPL'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, its ability to keep the O&M expenses within budget will be a key rating sensitivity during the operations stage.

Liquidity position: Adequate

RGHPL's liquidity position is adequate. The total project cost of Rs. 682.6 crore is proposed to be funded by an equity of Rs. 104.8 crore (15.3% of the project cost), the NHAI's grant including inflation adjustment of Rs. 291.9 crore (42.8%) and debt of Rs. 286 crore (41.9%). Moreover, the undertaking provided by Bekem and SACL towards financial support in case of a cost

overrun or delay in the 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, Rajamahendravaram Greenfield Highway Private Limited 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 for development, maintenance and management of the four-laning on the access controlled new greenfield highway section of NH-365BG of length 29.462km from Gurvaygudem village to Devarapalle village (Package-V) under inter corridor route under Bharatmala Pariyojana, in Andhra Pradesh on HAM basis.

The project was awarded through the competitive bidding process, wherein the company emerged as the lowest bidder with BPC of Rs. 622.0 crore and the first year O&M cost of Rs. 4.70 crore. The project was awarded by the NHAI on September 15, 2021, for a concession period of 17 years including a construction period of two years (730 days) with September 26, 2022 as the appointed date. The concession agreement for the project has been signed on January 27, 2022.

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	Type	Amount rated (Rs. crore)	Current rating (FY2023)		Chronology of rating history for the past 3 years			
			Amount outstanding as on January 31, 2023 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020	
								Feb 13, 2023
1 Term loans	Long term	286.0	62.2*	[ICRA]A-(Stable)	-	-	-	

*Mobilisation advance loan, which is sublimit of term loan

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*	286.00	[ICRA]A-(Stable)

Source: Company;

*Linked to COD and Expected COD is September 2024

[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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