

March 23, 2023

Guruvayoor Infrastructure Private Limited: Rating downgraded to [ICRA]B+(Stable) and continues 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	212.0	212.0	[ICRA]B+; Rating downgraded from [ICRA]BB and continues on Rating Watch with Negative Implications
Non-convertible debenture	53.0	53.0	[ICRA]B+; Rating downgraded from [ICRA]BB and continues on Rating Watch with Negative Implications
Total	265.0	265.0	

*Instrument details are provided in Annexure-I

Rationale

The rating revision for Guruvayoor Infrastructure Private Limited (GIPL) factors in the increased risk in the project, following certain adverse observations made by the Independent Engineer/National Highways Authority of India (NHAI) on the deficiencies in maintaining the project stretch. The NHAI has suspended the ongoing major maintenance (MM) works being undertaken by GIPL and entrusted the same to a new contractor citing GIPL's inability to complete the maintenance work of the stretch within the required timelines. ICRA had earlier highlighted this as a key monitorable for its credit profile. Further, the NHAI has imposed penalty/claims on GIPL worth Rs. 703.8 crore till January 31, 2023, which the company has claimed to be under arbitration. Given the large quantum of the claims, an adverse outcome would exert liquidity pressure on GIPL, thereby increasing the credit risk.

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 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 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 a negative outcome of the CBI investigation for GIPL.

The rating is constrained by the inherent risks in 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 Government of Kerala (GoK) issued an order for issuance of free passes to certain category of local users and agreed to reimburse GIPL for the loss. Further, Kerala State Road Transport Corporation (KSRTC) buses have not been paying toll from the COD, despite the order from the Supreme Court of India in October 2015 to obtain passes for their vehicles. 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 the NHAI to adjust the negative grant instalments against the pending dues from the GoK and KSRTC. ICRA notes that GIPL had filed claims against NHAI, and NHAI had also filed counterclaims, and the matter is under arbitration. 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 the same is not allowed, the resultant burden of payment of negative grant of NHAI on GIPL's cash flows would be a credit negative. 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.

ICRA takes note of the operational nature of the GIPL's project with a tolling track record of more than eight years with healthy ramp-up in toll collection in the recent months. 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. ICRA has factored in the prepayment of part of the debt in the past through cash sweep exercised by GIPL's lenders, and the consequent savings in interest outgo. The rating also considers the presence of funded debt service reserve account (DSRA) of Rs. 20 crore and the financial flexibility arising out of a tail period of ~3.5 years.

GIPL has availed debt from Bharat Road Network Limited (BRNL, Rs. 5.8 crore of unsecured debentures as on March 31, 2021), and SREI Equipment Finance Ltd (SEFL, Rs. 168.5-crore unsecured loans as on March 31, 2021) to meet the interest on sub-debt and extend inter-corporate deposits (ICDs). GIPL repaid ~Rs. 96.5 crore of loans from SEFL in FY2021, following receipt of Rs. 98 crore of ICDs advanced to other companies. ICRA is given to understand that these loans (from BRNL and SEFL) are unsecured and subservient to the project loans. Further, these loans are to be repaid from cash flows up streamed to BRNL 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 be a negative from the credit perspective.

Key rating drivers and their description

Credit strengths

Operational nature of the project; established traffic and toll collection track record – 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.

The project stretch has an established tolling record of over eleven years. It witnessed a CAGR of 3.79% in toll collections during FY2015-FY2022. Further, the toll collection increased to Rs. 135 crore in 10M FY2023 from ~Rs. 117.0 crore in FY2022 and ~Rs. 105.4 crore in FY2021. The average daily toll collections witnessed a robust increase to Rs. 0.48 crore per day in January 2023 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 traffic movement post the outbreak of the pandemic and favourable hikes in toll rates linked to inflation index.

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 in escrow account of ~Rs. 96.68 crore as on March 15, 2023. 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. The tail period of 3.5 years also provides financial flexibility to 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 pre-poned to FY2022-FY2023. Further, the floods in FY2019 and FY2020 had damaged a part of the project stretch. GIPL 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 MM activity involved an expected outflow of Rs. 116 crore in FY2022-FY2023, of which ~Rs. 93 crore had been incurred by the company. The NHAI had suspended the balance MM work citing inability to complete the same within time and extended it to another contractor as well as imposed cost/penalties on GIPL. This has heightened the risk of 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. GIPL filed claims against the NHAI for losses due to delay in project commissioning on account of factors attributable to the latter, and NHAI had filed counterclaims, and the matter is under arbitration. 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 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 alternative 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

While GIPL's toll collections have improved and would be sufficient to meet the debt servicing obligations in the medium term, given the sizeable claims/penalties imposed by the NHAI, GIPL's liquidity would not be sufficient to meet the same. As on March 08, 2023, GIPL had cash and bank balances of ~Rs. 111.7 crore (including DSRA of Rs. 20 crore).

Rating sensitivities

Positive factors – Favourable resolution of ongoing disputes including those with NHAI/GoK/KSRTC resulting in reduction in GIPL's liabilities (including contingent liabilities/claims) can result in a positive rating action.

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

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for BOT (Toll) Roads
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

GIPL is a special purpose vehicle (SPV) formed for four-laning of the Thrissur-Angamali section of NH-47 (in Kerala) from km 270.00 to km 316.00, and improvement, operation and maintenance from km 316.70 to km 342.00 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% and 49%, respectively. However, later on Bharat Road Network Limited (BRNL) has taken over the 76% equity interest (49% from SREI and 25% from KMC) and at present, the SPV is held by BRNL. The project achieved the provisional commercial operation date (PCOD) in December 2011, and tolling operations commenced in February 2012. 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)

	FY2021	FY2022	9M FY2023
Operating income	126.8	123.1	120.6
PAT	-16.8	-47.1	49.4
OPBDIT/OI	29.81%	19.75%	87.89%
PAT/OI	-13.28%	-38.29%	40.98%
Total outside liabilities/Tangible net worth (times)	-9476.47	-14.65	270.66
Total debt/OPBDIT (times)	12.29	17.86	2.79
Interest coverage (times)	1.00	0.58	3.89

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

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2023)			Chronology of rating history for the past 3 years						
		Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2022 (Rs. crore)	Date & rating in FY2023			Date & rating in FY2022		Date & rating in FY2021		Date & rating in FY2020
				Mar 23, 2023	Feb 22, 2023	Aug 26, 2022	Sep 24, 2021	Apr 14, 2021	Aug 21, 2020	Jul 02, 2020	May 17, 2019
1 Term loans	Long term	212.00	127.52	[ICRA]B+ @	[ICRA]BB @	[ICRA]BB @	[ICRA]BBB- @	[ICRA]BBB @	[ICRA]BBB@	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2 Non-convertible debenture	Long term	53.00	30.50	[ICRA]B+ @	[ICRA]BB @	[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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Term loan	FY2017	10.65%	FY2025	212.0	[ICRA]B+; Rating watch with Negative Implications
INE647L07022	NCD	Sep 9, 2014	11%	March 31, 2025	26.5	[ICRA]B+; Rating watch with Negative Implications
INE647L07014	NCD	Sep 9, 2014	11%	March 31, 2025	26.5	[ICRA]B+; Rating watch with Negative Implications

Source: Company

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

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Ashish Modani
+91 20 6606 9912
ashish.modani@icraindia.com

Abhishek Gupta
+91 124 4545 863
abhishek.gupta@icraindia.com

Vaibhav Jain
+91 124 4545 868
Vaibhav.jain@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45



Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.