

May 05, 2023

## H.G. Rewari Ateli Highway Private Limited: Long-term rating upgraded and placed on rating watch with developing implications; short-term rating upgraded and withdrawn

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term loan	227.00	213.70	[ICRA]AA; Upgraded from [ICRA]A+ (Positive), Placed on rating watch with developing implication
Short-term – Interchangeable - Others	(63.80)	-	[ICRA]A1+; upgraded from [ICRA]A1 and withdrawn
<b>Total</b>	<b>227.00</b>	<b>213.70</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The ratings upgrade for H.G. Rewari Ateli Highway Pvt Ltd (HRAHPL) favourably factors in the project's healthy physical progress of 99.5% as on April 12, 2023. The project had received the provisional completion certificate (PCOD) on November 15, 2021, and the ratings positively factor in the proportionate (w.r.t work completed) receipt of the first two semi-annuities and operations and maintenance (O&M) payment without any major deductions. The first annuity was received within ~17 days due to administrative delays in finalising the final completion cost, whereas the second annuity was received within ~13 days from the scheduled annuity due date, in line with the concession agreement. ICRA draws comfort from the ~45-day buffer between the annuity receipt date and the scheduled debt servicing date. The ratings take comfort from the various reserves created as a part of the debt structure, such as the funded debt service reserve account (DSRA) equivalent to six months of debt servicing obligations, creation of a major maintenance reserve (MMR), cash sweep and restricted payment clause with a minimum debt servicing coverage ratio (DSCR) of 1.15 times.

The rating has been placed on watch with developing implications on account of a definitive agreement entered between the promoters of HGIEL and Highway Infrastructure Trust (HIT) on May 3, 2023. The transaction for the 100% stake sale of HRAHPL to HIT is expected to be completed in the near term. ICRA will continue to monitor the developments on the transaction, especially on the debt structure, and take appropriate rating action on HRAHPL as and when more clarity emerges.

The ratings continue to favourably factor in the stable revenue stream over the term of the concession from the project owner and annuity provider, the National Highways Authority of India [NHAI; rated [ICRA]AAA (Stable)], which is a key Central Government entity responsible for development and maintenance of India's national highway programme. HRAHPL has appointed HG Infra Engineering Limited ([ICRA]AA-(Stable)/A1+) as the O&M contractor for taking up routine maintenance activities at an annual fixed-price contract. ICRA takes note of the strong financial profile and operational track record of its sponsor and O&M contractor – HGIEL. HGIEL has also provided an undertaking towards financial support, in case of any shortfall.

The ratings are, however, constrained by the exposure of the project's returns to any changes in the Bank Rate. The interest earned on the outstanding annuities are linked to the Bank Rate, while the interest payable on the project loan is linked to the lender's MCLR. As a result, HRAHPL's cash flows will be sensitive to the spread between the Reserve Bank of India's (RBI) Bank Rate and the lender's MCLR. Further, its cash flows are exposed to the inflation risk as O&M receipts, 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 company will have to undertake O&M of the project stretch as per the concession agreement to avoid any deductions from annuities. Any significant deductions from the annuities or increase in routine and major maintenance (MM)

from the budgeted level could impact its DSCR. ICRA in its base case has considered the additional built-in cushion compared to the company's assumptions for O&M and base estimates. ICRA also notes the residual execution risk, albeit marginal, amounting to Rs. 1.6 crore as of April 12, 2023.

ICRA has withdrawn the short-term rating outstanding, at the request of the company and in line with its policy on withdrawal of credit ratings.

## Key rating drivers and their description

### Credit strengths

**PCOD achieved; two annuities received reducing uncertainty on completion cost** – HRAHPL received the PCOD on November 15, 2021, ahead of the scheduled completion (January 2022) and became eligible for receipt of bonus of Rs. 5.36 crore. Two proportionate annuities were already received (in June 2022 and November 2022) without any significant delay or deductions. The achievement of provisional completion for a major part of the project, reduces the risk related to the annuity timelines. The annuities are expected to be sufficient to meet the debt servicing obligations.

**Annuity nature of project with strong counterparty** – The annuity nature of the project eliminates the traffic risk in the hybrid annuity model (HAM) road projects. As per the concession agreement, HRAHPL will be receiving 30 semi-annual annuities starting six months from completion (or provisional completion), totalling 60% of the final project completion cost. In addition, it will receive the interest on the residual annuities payable (at Bank Rate + 3%), and the inflation-adjusted O&M cost bid over the 15-year operations period from the project owner and authority, the NHAI, a key Central Government entity. The high certainty of cash flows (except for the Bank Rate and inflation) from a strong counterparty is a key strength for the company.

**Healthy coverage indicators and presence of structural features** – HRAHPL is expected to have a healthy DSCR during the debt tenure. Structural features of the debt, such as the presence of escrow, a cash flow waterfall mechanism, DSRA equivalent to ensuing six months of debt servicing obligation and creation of MMR and restricted payment clause with a minimum DSCR of 1.15 times, provide comfort. Further, there is a buffer available of 45 days between the annuity receipt date and the scheduled debt servicing date, which provides cushion in case of any unforeseen delays in annuity receipts.

### Credit challenges

**Project cash flows and returns exposed to interest rate and inflation risks** – The project's cash flows and returns are exposed to interest rate risk and depend on the spread between the RBI's Bank Rate and the interest rate charged by lenders. The interest on the outstanding annuities from the NHAI is linked to the RBI's Bank Rate, while the interest rate charged by lenders is linked to their MCLR. Further, HRAHPL's cash flows are exposed to the inflation risk as O&M receipts, though linked to inflation (70% WPI and 30% CPI), may not be adequate to compensate for the increase in O&M/periodic maintenance expenses.

**Ensuring routine and periodic maintenance expenses within budgeted levels** – HRAHPL's sources of income are the annuity, interest on outstanding annuities and the annual O&M payments from the NHAI. Hence, ensuring assured lane availability and undertaking regular as well as periodic maintenance of the project within the budgeted costs with no deductions in annuity receipts, would remain important. In this regard, ICRA has taken comfort from the strong estimated cash flow and additional cushion built in the cost estimates for undertaking the O&M and MM expenses. HGIEL has provided an undertaking towards financial support, in case of any shortfall in O&M expenses as per the lender's approved base case business plan.

**Residual execution risks** – The project cost amounting to ~Rs. 1.6 crore was pending as on April 12, 2023, on account of land unavailability, which is expected to be funded through internal accruals generated by the project. Any possibility of cost overruns is mitigated to an extent by the fixed-price, fixed-time contract with HGIEL and the established track record of HGIEL in road construction. Completion of the project within budgeted costs and timelines remains important from a credit perspective.

## Liquidity position: Adequate

HRAHPL's liquidity is expected to remain adequate, as annuity payments from the authority have commenced and cash flows from operations are likely to be sufficient to meet the debt servicing obligations. The company has ~45-day gap between the annuity receipt and debt repayment, which provides a cushion. ICRA takes note of the DSRA equivalent to six months of debt obligations maintained by the SPV and additional liquidity buffer available in the form of lien-free fixed deposit (~Rs. 6 crore as on March 31, 2023), to meet the interest and O&M obligations till the next annuity receipt.

## Rating sensitivities

**Positive factors** – The rating watch will be resolved once the transaction gets consummated. ICRA could upgrade HRAHPL's long-term rating on successful attainment of the final COD. Moreover, an established track record of timely receipt of annuities without any deductions, satisfactory O&M track record, timely creation of all stipulated reserves will be a credit positive.

**Negative factors** – The rating watch will be resolved once the transaction gets consummated. Negative Pressure on the rating could arise, if there are any significant delays or deductions in annuities, higher-than-envisioned O&M costs or additional indebtedness, leading to a reduction in cumulative DSCR below 1.15 times. The rating could also come under pressure if there is any non-adherence to the debt structure.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Roads - Hybrid Annuity</a> <a href="#">Policy on withdrawal of credit ratings</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

## About the company

H.G. Rewari Ateli Highway Private Limited (HRAHPL) is a special purpose vehicle (SPV) formed by H.G. Infra Engineering Limited (HGIEL). It undertook the upgradation of four lanes of the Rewari-Ateli Mandi section of NH-11 from km 11.780 to Rewari to EX. km 43.445 near Ateli Mandi (designed length 30.45 km) as feeder route in the state of Haryana, through a private public partnership (PPP) on a hybrid annuity mode. The total project stretch length is 30.45 km. The company entered into a 17.5-year concession agreement (including two-and-a-half years of construction period) on May 27, 2019, with the NHAI. The project's construction started on January 14, 2020, and the PCOD was declared on November 15, 2021 (after EOT received, from January 13, 2022 to May 05, 2022).

## Key financial indicators (audited)

Key financial indicators are not applicable as HRAHPL 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	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on Feb 28, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				5-May-2023	20-May-2022	02-Jul 2021	07-Jan-2021
1 Term loan	Long-term	213.70	200.88	[ICRA]AA, rating watch with developing implication	[ICRA]A+ (Positive)	[ICRA]A (Stable)	[ICRA]A- (Stable)
2 Interchangeable - Others	Short-term	(63.80)	-	[ICRA]A1+; withdrawn	[ICRA]A1	[ICRA]A1	[ICRA]A2+

## 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	FY2020	-	FY2036	213.70	[ICRA]AA; rating watch with developing implication

[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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