September 25, 2023

Chikhali -Tarsod Highways Private Limited: Provisional rating finalised

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	531.60	531.60	[ICRA]AA (Stable); Provisional rating finalised
Total	531.60	531.60	

**Instrument details are provided in Annexure-I*

Rationale

In March 2023, ICRA had assigned a Provisional [ICRA]AA (Stable) rating to the term loan facilities of Chikhali -Tarsod Highways Private Limited (CTHPL). The company has shared the executed facility agreement and the intercompany agreement, which are in line with the initial rating conditions. Hence, the provisional rating stands confirmed as final. ICRA notes that while a new escrow agreement remains to be executed, an interim arrangement has been entered between CTHPL, the lender and the lender's agent as per which the lender's agent has adequate control over the transactions from the old escrow account.

The assigned rating continues to derive comfort from the operational nature of the project with a track record of receipt of three semi-annual annuities and the adequate debt coverage metrics. The rating draws strength from the annuity nature of the project, with 60% of the final completion cost to be paid out as semi-annual annuities, along with interest on the residual annuities payable (at bank rate + 3%). CTHPL will receive inflation-adjusted operations and maintenance (O&M) cost bid over the 15-year operations period from the project owner, the National Highways Authority of India [NHAI, rated [ICRA]AAA(Stable)], which is a strong counterparty. ICRA notes that a delay of around 3 days has been witnessed in the 3rd semi-annual annuity owing to procedural reasons, given the change in sponsor. However, going forward, ICRA does not expect any material delay in the receipt of the annuities and the availability of a buffer of over 60 days between the annuity due date and the scheduled debt repayment date, which along with the funded debt servicing reserve account (DSRA), mitigate the risk of delay in annuity payments to an extent. While the projected debt coverage indicators for the term loan is adequate with a cumulative debt service coverage ratio (DSCR) of around 1.1 times during the debt tenure, the repo rate linked interest rate for the loan mitigates the interest rate risk to a large extent due to the natural hedge with interest on annuities to be received from the NHAI (linked to RBI's bank rate). The debt structure requires creation of various reserves such as debt service reserve (DSR) equivalent to six months of debt servicing obligations, and major maintenance reserve (MMR), which along with the presence of other structural features of the debt, including escrow, cash flow waterfall mechanism, and restricted payment clause with a minimum DSCR of 1.1 times, offers comfort. ICRA notes that the special purpose vehicle (SPV) is a party to the cash flow pooling/ surplus sharing arrangement with other five[1] SPVs of the Actis Long Life Infrastructure Fund (ALLIF), wherein the surplus cash flows at each SPVs will be made available to the other SPVs for meeting any shortfall in debt servicing, DSR and MMR replenishment and O&M shortfall.

Notwithstanding the above, CTHPL's cash flows are exposed to 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. Any substantial deductions from the annuities or increase in routine and major maintenance (MM) from the budgeted level could impact its coverage metrics. Further, any significant upward revision to the O&M and MM rates impacting CTHPL's cash flows will remain a key monitorable. The debt structure also has credit-rating linked debt acceleration clause, which if materialises, could expose the company to refinancing risk.

[1] *Welspun Infrafacility Private Limited (WIPL), Welspun Delhi Meerut Expressway Private Limited (WDMEPL), MBL (CGRG) Road Limited (CGRG), MBL (GSY) Road Limited (GSY) and Welspun Infra Road Private Limited (WIRPL)*

The Stable outlook on the rating reflects ICRA's opinion that CTHPL will continue to benefit from the operational status of the project, strong counterparty, adequate debt coverage metrics and presence of structural features.

Key rating drivers and their description

Credit strengths

Operational nature of project – CTHPL achieved the provisional completion certificate (PCC)/PCoD for the project effective on August 25, 2021, against the scheduled commercial operations date (COD) of July 14, 2021. The company completed the balance work with COD declared on October 30, 2022.

Annuities nature of project with strong counterparty – The annuity nature of the project eliminates the traffic risk for hybrid annuity model (HAM) road projects. It will receive 30 semi-annual annuities, along with interest on the residual annuities payable (at bank rate + 3%) and inflation-adjusted O&M cost bid over the 15-year operations period from the project owner, the NHAI. ICRA notes that a delay of around 3 days has been witnessed in the 3rd semi-annual annuity owing to procedural reasons, given the change in sponsor. However, going forward, ICRA does not expect any material delays in the receipt of future annuities, as it has achieved COD. There is a gap of over 60 days between the annuity due date and the scheduled debt repayment date, which along with the funded DSRA, mitigates the delay risks in annuity payments to an extent. The increased certainty of cash flows (except for the bank rate, and inflation) from a strong counterparty (NHAI) is a key strength for the company.

Adequate coverage indicators with repo rate linked interest on term debt, and presence of structural features – CTHPL is expected to maintain adequate debt coverage indicators with a cumulative DSCR of around 1.1 times during the debt tenure. This is adequate as the repo rate linked interest rate for the proposed loan mitigates the interest rate risk to a large extent due to the natural hedge with interest on annuities to be received from the NHAI (linked to RBI's bank rate). The debt structure mandates creation of various reserves such as DSR equivalent to six months of debt servicing obligations and MMR. The company's credit support is provided by other structural features of the debt, including escrow, cash flow waterfall mechanism, and restricted payment clause with a minimum DSCR of 1.1 times. Further, the SPV is a party to the cash flow pooling/ surplus sharing arrangement with other five SPVs of the ALLIF, wherein the surplus cash flows at each SPVs will be made available to the other SPVs for meeting any shortfall in debt servicing.

Credit challenges

O&M as per concession requirement and risk of delays or deductions in annuity – CTHPL's sources of income include annuity, interest on outstanding annuities and the annual O&M payments from the NHAI. Any significant deductions from the annuities or increase in routine and MM from the budgeted level could impact its coverage metrics. While CTHPL will receive O&M payments from NHAI along with annuities, and the same will increase as per inflation (70% WPI and 30% CPI), it may not be adequate to compensate for the actual increase in O&M/periodic maintenance expenses. Further, any substantial upward revision to the O&M and MM rates impacting CTHPL's cash flows will remain a key monitorable. It expects the MM cost to be lower than ICRA's benchmarks due to factors like timely O&M and low commercial traffic density on the project stretch. However, ICRA in its base case scenario has built-in additional cushion against the company's assumptions. The timely receipt of annuity payments without any material deduction is important from the credit perspective. However, the buffer between the annuity due date and the scheduled debt repayment date, along with the DSR, mitigates the risk of any short-term cash flow mismatches.

Liquidity position: Adequate

The cash flow from operations are likely to be sufficient to meet the debt servicing obligations with a cumulative DSCR of around 1.1 times during the tenure of the rated instrument. The company's liquidity position is also supported by the availability of funded DSRA equivalent to six months of debt servicing obligations.

Rating sensitivities

Positive factors – ICRA could upgrade CTHPL's rating if forthcoming annuities are received in a timely manner without any deductions, along with improvement in the cumulative DSCR to above 1.15 times on a sustained basis.

Negative factors – Negative pressure on the rating could arise if there are major deductions or delays in the receipt of semi-annual annuities or O&M payments, or if the O&M expenses significantly exceed the estimates, or if there is any additional debt availed by the SPV that impacts its coverage indicators. 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	[Corporate Credit Rating Methodology](#) [Rating Methodology for Roads–Hybrid Annuity](#)
Parent/Group support	Not applicable ICRA notes that CTHPL has a cash flow pooling mechanism with other five SPVs (Welspun Delhi Meerut Expressway Private Limited, MBL (CGRG) Road Limited, MBL (GSY) Road Limited, Welspun Road Infra Private Limited, and Welspun Infrafacility Private Limited) of the ALLIF as per which, the surplus cash flows at each SPV will be made available to the other SPVs for meeting any shortfall in debt servicing.
Consolidation/Standalone	

About the company

Chikhali-Tarsod Highways Private Limited (CTHPL) is a special purpose vehicle (SPV) established by Vishvaraj Environment Private Limited to undertake four laning of Chikhali-Tarsod (Package-IIA) section of NH-6 (New NH-53) from Km. 360.000 to Km. 422.700 in Maharashtra to be executed on hybrid annuity mode under NHDP Phase-IV. The concession agreement was signed on April 03, 2017, and appointed date was received as January 16, 2019. The current ownership structure of the entity has been detailed below:

The concession agreement between the NHAI and CTHPL was signed on April 3, 2017. The provisional COD of the project was achieved in August 2021 and COD on October 30, 2022, with a delay of around 1.25 years from the SCOD of July 2021. The delay was on account of the Covid-19 pandemic and the company received the requisite EOT timely. The total cost of the project (Rs. 1,164.2 crore) was funded by the equity of Rs. 120.2 crore, the debt of Rs. 538.4 crore from banks, and a grant of Rs. 505.6 crore from the NHAI. CTHPL is contractually entitled to receive semi-annual payments in March and September every year until the end of the concession period, FY2037. These receipts typically include annuity payment, interest on the annuity, and O&M payment. The O&M payments are indexed as per a pre-determined formula to the WPI/CPI.

Key financial indicators (Audited)

CTHPL Standalone	FY2022	FY2023
Operating income	198.9	43.4
PAT	3.1	8.2
OPBDIT/OI	0.0%	-1.1%
PAT/OI	1.6%	18.9%
Total outside liabilities/Tangible net worth (times)	10.3	100.5
Total debt/OPBDIT (times)	NM	NM
Interest coverage (times)	NM	NM

Source: Company, ICRA Research, All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; NM: Not meaningful; CTHPL 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 (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Sept 25, 2023	March 22, 2023	-	-
1	**Fund-based – Term loan**	Long-term	531.60	512.22	**[ICRA]AA (Stable)**	**Provisional [ICRA]AA (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	Long-term – Fund-based – Term loan	March 22, 2023	-	FY2036	531.60	[ICRA]AA (Stable)

Source: Company, ICRA Research

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:

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.

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