

November 01, 2023

Guruvayoor Infrastructure Private Limited: Rating downgraded to [ICRA]B-; 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]B+ continues on Rating Watch with Negative Implications
Non-convertible debenture	53.0	53.0	[ICRA]B-; Rating downgraded from [ICRA]B+ 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 adverse developments in the ongoing case filed by Central Bureau of Investigation (CBI) against the company, whereby the Directorate of Enforcement (ED) of Kerala, has started preliminary investigations and has frozen the company's escrow and DSRA account balances to the extent of Rs. 125 crore (including Rs. 23 crore of DSRA). This has resulted in a significant decline in its free cash balances (Rs. 14 crore as on October 25, 2023 from Rs. 88.6 crore as on March 31, 2023), thus constraining its liquidity position. ICRA had earlier highlighted that downward pressure on the rating could arise in case of a negative development in CBI investigation for GIPL. The rating continues to remain on Watch with Negative Implications pending a definite outcome on the ongoing ED investigation against GIPL. The CBI's FIR alleged criminal conspiracy and undue gain of Rs. 102.44 crore by the company during 2006 to 2016, by alleged violation of certain terms of the Concession Agreement (CA). ICRA will continue to monitor the developments with respect to the resolution of the FIR and assess its implications on the company's credit profile.

The rating remains 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 did not pay this amount and had requested the NHAI to adjust the negative grant instalments against the pending dues from the GoK and KSRTC. GIPL had filed claims against NHAI. The NHAI had also filed counterclaims (~Rs. 1,075 crore as on March 31, 2023 including penalties), 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 significant. Given the large quantum of the contingent liabilities/claims against the company, an adverse outcome would exert liquidity pressure on GIPL and 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 a decade with healthy ramp-up in toll collection in the past two years. 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.

GIPL has availed debt from Bharat Road Network Limited (BRNL, Rs. 5.8 crore of unsecured debentures as on March 31, 2023), and SREI Equipment Finance Ltd (SEFL, Rs. 170.5-crore unsecured loans as on March 31, 2023) to meet the interest on sub-debt and extend inter-corporate deposits (ICDs). 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. It has an established tolling track record of over a decade. The project received provisional commercial operations date (PCOD) in December 2011 and the final COD on April 18, 2016. It witnessed a CAGR of 4.36% in toll collections during FY2019-FY2023. Further, the toll collection increased to Rs. 80.6 crore in 5M FY2024 compared to Rs.66.7 crore in 5M FY2023. The toll revenue in FY2023 was Rs. 171.0 crore. The average daily toll collections witnessed a healthy increase to Rs. 0.53 crore per day in August 2023 from Rs. 0.47 crore per day in March 2023 and Rs. 0.32 crore per day in March 2022 owing to the gradual recovery in traffic movement post the outbreak of the pandemic and favourable hikes in toll rates linked to inflation index.

Credit challenges

Exposed to sizeable contingent liability claims – GIPL had outstanding contingent liabilities of ~Rs. 1,075 crore as on March 31, 2023 (increased from Rs. 212 crore as on March 31, 2022) primarily relating to penalty imposed by the NHAI for non-maintenance of road as per the CA. The NHAI suspended the MM work being undertaken by the company in FY2023 citing inability to complete the same within time and extended it to another contractor, besides imposing cost/penalties on GIPL. This has heightened the risk of an adverse action from the authority. GIPL has filed claims against the NHAI for losses due to delay in project commissioning on account of factors attributable to the latter, and the NHAI had filed counterclaims. The matter is under arbitration. Any adverse ruling leading to material cash outflows would be a credit negative for the company.

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 did not pay this amount and had requested NHAI to adjust the negative grant instalments against the pending dues from the GoK and KSRTC. 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

GIPL's toll collections have improved and could be sufficient to meet the debt servicing obligations in the medium term. However, the company's liquidity will remain stretched, given the sizeable claims/penalties imposed by the NHAI. As on October 25, 2023, it had free cash and bank balances of ~Rs. 14 crore (excluding escrow and DSRA balance of ~Rs. 125 crore put on freeze by the ED).

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 lead to a downward rating revision.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology 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 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 Bharat Road Network Limited (BRNL) took over 76% equity interest (49% from SREI and 25% from KMC). At present, the SPV is held by BRNL.

The project achieved 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)

	FY2022	FY2023
Operating income	123.1	164.2
PAT	-47.1	17.0
OPBDIT/OI	19.8%	57.2%
PAT/OI	-38.3%	10.3%
Total outside liabilities/Tangible net worth (times)	-14.7	-20.6
Total debt/OPBDIT (times)	17.9	4.0
Interest coverage (times)	0.6	2.6

Source: ICRA Research, Company data

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

Rating history for past three years											
Current Ratings (FY2024)					Chronology of rating history for the past 3 years.						
Type	Amount Rated (Rs. crore)	Amount outstanding as on Sept 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023			Date & rating in FY2022		Date & rating in FY2021		
				Nov 01, 2023	Mar 23, 2023	Feb 22, 2023	Aug 26, 2022	Sep 24, 2021	Apr 14, 2021	Aug 21, 2020	Jul 02, 2020
1 Term loans	Long term	212.00	81.72	[CRA]B-; Rating Watch with Negative Implications	[ICRA]B+ @	[ICRA]BB @	[ICRA]BB @	[ICRA]BBB- @	[ICRA]BBB @	[ICRA]BBB@	[ICRA]BBB (Stable)
2 Non-convertible debenture	Long term	53.00	19.47	[ICRA]B-; Rating Watch with Negative Implications	[ICRA]B+ @	[ICRA]BB @	[ICRA]BB @	[ICRA]BBB- @	[ICRA]BBB @	[ICRA]BBB@	[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

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Branches



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