

November 13, 2023

Chatra Expressways Private Limited: Provisional rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	715.0	Provisional [ICRA]A-(Stable)assigned
Total	715.0	

*Instrument details are provided in Annexure-I

Rating in the absence of pending actions/documents	[ICRA] BBB+
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Note: The table above also captures ICRA's opinion on the rating if the pending actions/ documents are not completed

Rationale

ICRA has assigned a long-term rating of Provisional [ICRA] A- (Stable) to Chatra Expressways Private Limited (CEPL). The assigned rating is provisional (as denoted by the prefix 'Provisional' before the rating symbol) and would be converted to final on finalisation of the term sheet and execution of corporate guarantee from the sponsors till the receipt of first annuity. ICRA would keep the rating under review, in line with its published methodologies/policies.

The assigned rating for CEPL favourably factors in the inherent benefits of the hybrid-annuity based nature of the project including upfront availability of right of way (RoW), automatic de-scoping of RoW pending beyond 180 days from the appointed date, and inflation-linked 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 grant. The rating considers CEPL's strong sponsor profile with Tracks and Towers Infratech Private Limited (TTIPL, rated [ICRA]A(Stable)) holding 51% shareholding and the remaining 49% held by Rail Vikas Nigam Limited (RVNL). ICRA notes that the proposed term loan will have joint and several corporate guarantee from both the sponsors till the receipt of the first annuity. TTIPL and RVNL are expected to provide an undertaking towards cost overrun support during the construction phase, any shortfall in operations and maintenance (O&M) expenses and debt servicing in the operational phase thereby supporting its credit profile.

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 average of 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 development and maintenance of India's national highway programme.

The rating, however, remains constrained by the execution risks in the project, as it is in the nascent stages of execution with appointed date yet to be announced. The risk is mitigated to some extent by the fixed-price, fixed-time contract with TTIPL, which is the engineering, procurement and construction (EPC) contractor for the entire project stretch. TTIPL has an established track record of executing EPC projects in other segments (like railways, and buildings). 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. ICRA's rating factors in the exposure of CEPL'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, its 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. The project stretch is a perpetual pavement and is expected to have high share of commercial traffic. The O&M assumptions considered are lower than ICRA's benchmark estimates and

the ability of the special purpose vehicle (SPV) to undertake the O&M within the budgeted costs remains a key rating monitorable.

The Stable outlook on the rating reflects ICRA's opinion that CEPL will benefit from hybrid annuity nature of the project, strong sponsor and EPC contractor profile.

Key rating drivers and their description

Credit strengths

Lower inherent risks in HAM projects from NHAI – The inherent benefits of the hybrid annuity-based nature of the project include an upfront availability of RoW, automatic de-scoping of RoW pending beyond 180 days from the appointed date and inflation-linked revisions to 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 post commissioning of the project with 60% of the inflation-adjusted BPC being paid out as annuity, along with interest at an average of 1-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.

Strong sponsor profile – CEPL is a subsidiary of TTIPL, which has over three decades of experience in executing railway projects. In addition, RVNL holds 49% of the shareholding. ICRA notes that proposed term loan will have joint and several corporate guarantee from both the sponsors till receipt of the first annuity. Further, TTIPL and RVNL are expected to provide an undertaking towards cost overrun support during the construction phase, any shortfall in O&M expenses and debt servicing in the operational phase supporting the credit profile.

Credit challenges

Execution risk due to nascent stage of project – The company is exposed to project execution risks as the appointed date is yet to be received. However, the risk is expected to be mitigated to an extent by the fixed-price, fixed-time contract with the EPC contractor, TTIPL.

Undertaking O&M as per concession requirement – 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 annuities. Any significant deduction from annuities or rise in routine and MM from the budgeted level could impact its debt servicing coverage ratio. CEPL'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. The project stretch is a perpetual pavement and is expected to have high share of commercial traffic. The O&M assumptions considered are lower than ICRA's benchmark estimates. The ability of the SPV to undertake the O&M expenses within the budgeted costs remains a key rating monitorable.

Liquidity position: Adequate

CEPL's liquidity position is adequate. The total project cost is Rs. 1,458.0 crore to be funded by equity of Rs. 237.30 crore (16% of project cost), debt of Rs. 711.90 crore (49%) and NHAI grant of Rs. 508.80 crore (35%). The SPV is currently in advance stage of financial closure, and the final sanction is expected in Q3 FY2024.

Rating sensitivities

Positive factors – The rating could be upgraded if the project achieves PCOD without any time and cost overruns and/or if there is an improvement in the credit profile of the sponsor.

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 sponsor, or if there are delays in the receipt of grant or equity infusion increasing the funding risks for the project.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Roads- Hybrid Annuity Policy on Provisional ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

Pending actions/documents required to be completed for conversion of provisional rating into final

The assigned rating is provisional and would be converted into final upon on the finalisation of term sheet and execution of corporate guarantee from both the sponsors till the receipt of first annuity.

Validity of the provisional rating

In case the borrowing facility to which a provisional rating has been assigned is subsequently availed, the provisional rating would have to be converted into a final rating within 90 days (validity period) from the date of availing the borrowing facilities. If considered appropriate, the validity period may be extended by a further 90 days for converting the provisional rating into final, in circumstances where the rated entity expressly indicates its intention to complete the pending actions/ documents over the near term. In no circumstance shall the validity period be extended beyond 180 days from the date of availing the borrowing facilities. For further details refer to ICRA’s Policy on Provisional Ratings available at www.icra.in.

If neither the pending actions/ documents nor the availing of the borrowing facilities is completed after one year of assignment of the provisional rating, ICRA would withdraw the provisional rating. However, the validity period may be extended beyond one year, subject to the conditions outlined in ICRA’s Policy on Provisional Ratings available at www.icra.in.

About the company

Incorporated in April 2023, Chatra Expressways Private Limited (CEPL) is an SPV promoted by TTIPL (51% stake) and RVNL (49% stake) to undertake development, maintenance and management works of Varanasi-Ranchi-Kolkata highway from Sonepurbigha village to junction with NH-22 (Chatra Bypass) near Chatra from km 184.700 to km 222.000 under Bharatmala Pariyojana in Jharkhand (Package-8) on Hybrid Annuity Mode.

CEPL was awarded the project through competitive bidding process as it emerged the lowest bidder with BPC of Rs. 1,271.99 crore. The total project cost is Rs. 1,458.0 crore to be funded by equity of Rs. 237.30 crore (16% of project cost), debt of Rs. 711.90 crore (49%) and NHAI grant of Rs. 508.80 crore (35%).

Key financial indicators

Key financial indicators are not applicable as CEPL 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 March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
1	Term loans	Long term	715.0	--	Nov 13, 2023 Provisional [ICRA]A-(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	Term loan	NA*	NA		715.0	Provisional [ICRA]A-(Stable)

Source: Company

*The proposed debt is yet to be sanctioned

[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:

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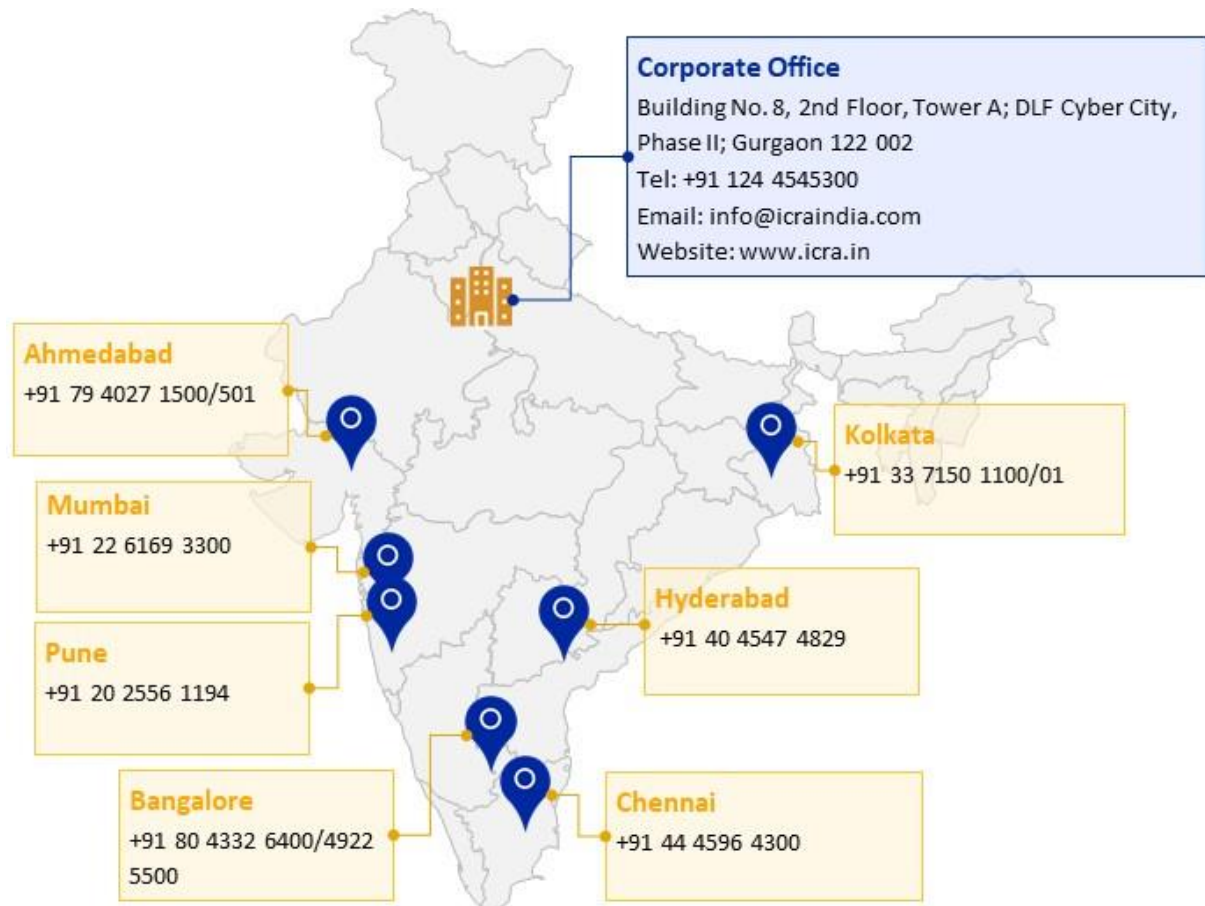
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