

January 08, 2024

Rajamahendravaram Greenfield Highway Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term: Fund-based – Term loan	286.00	286.00	[ICRA]A- (Stable); reaffirmed
Total	286.00	286.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation for Rajamahendravaram Greenfield Highway Private Limited (RGHPL) factors in the inherent benefits of the hybrid-annuity based nature of the project including inflation-linked¹ revisions to the bid project cost (BPC) and 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. The rating considers the healthy financial risk profile and established track record of engineering, procurement, and construction (EPC) contractor, Bekem Infra Projects Private Limited (Bekem, rated [ICRA]A (Stable)). RGHPL is promoted by Bekem and Sri Avantika Contractors (I) Limited (SACL) in the ratio of 51:49 to undertake the project. The promoters have provided joint and several corporate guarantee for the loan from the lender till receipt of the first annuity. Further, Bekem has provided undertaking towards financial support in case of cost overrun during the construction phase, or any shortfall in operations and maintenance (O&M) expenses. The rating positively considers the structural features of the debt, including the presence of escrow, cash flow waterfall mechanism, provision for debt service reserve (DSR, to be created out of the first two annuities), provision for creation of reserve for major maintenance (MMR), and the restricted payment clause with a minimum debt service coverage ratio (DSCR) of 1.15 times. 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 is, however, constrained by the execution risks involved in the under-construction projects including time and cost overrun risks. The project has received appointed date on September 22, 2022. The company achieved 28.3% physical completion as of November 30, 2023 against scheduled completion of 56.38%. Although the physical progress is lower than envisaged, the same is due to delay in approval for change of scope as per the management. It expects to receive 120 days of extension of time (EOT) for completing the project and the final approval from the authority is awaited. Its ability to commission the project within the budgeted costs would remain important from the credit perspective. RGHPL is also exposed to pending equity mobilisation risks as Rs. 28.29 crore of equity is yet to be infused as of November 30, 2023. However, Bekem is expected to infuse the funds in RGHPL, in a timely manner, for the project completion if there is any delay in equity infusion from SACL. Post-commissioning, it will 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.

The Stable outlook on the rating reflects ICRA's opinion that RGHPL will benefit from the strong execution capabilities of the sponsor and EPC contractor, Bekem.

¹ Based on annual change in price index multiple (PIM) from the base year – PIM is the weighted average of Wholesale Price Index (WPI) and Consumer Price Index (CPI) (IW) in the ratio of 70:30.

Key rating drivers and their description

Credit strengths

Lower inherent risks in HAM projects from the NHAI – The inherent benefits of the HAM project include an 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 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 after commissioning of the project with 60% of the inflation-adjusted BPC being paid out as annuity, along with interest at an average of one-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.

Comfortable projected debt coverage indicators for the project – The credit profile is supported by the undertaking towards cost overrun during the construction phase, and any shortfall in O&M expenses from Bekem. Once operational, RGHPL is expected to have a healthy debt service coverage ratio during the debt tenure. Structural features of the debt, such as the presence of escrow, a cash flow waterfall mechanism, provisions for DSRA (6 months P+I), creation of a major maintenance reserve (MMR) and restricted payment clause with a minimum DSCR of 1.15 times, provide comfort.

Healthy financial risk profile and established track record of sponsor/EPC contractor (Bekem) – RGHPL is promoted by Bekem (rated [ICRA]A (Stable)) and SACL. Bekem has more than two decades of experience in executing hydro mechanical works. Although it has limited experience in road project execution, the company's strong project execution capability is expected to mitigate the risk to an extent.

Credit challenges

Execution risk related to under-construction project – The project has received the appointed date on September 26, 2022 and achieved physical progress of ~28.3% as on November 30, 2023 against 56.38% targeted physical progress. Although the physical progress is lower than envisaged, the same is due to delay in approval for change of scope as per the management. The company expects to receive 120 days of extension of time (EOT) for completing the project and the final approval from the authority is awaited. Its ability to commission the project within the budgeted costs would remain important from the credit perspective. RGHPL is also exposed to pending equity mobilisation risks as Rs. 28.29 crore of equity is yet to be infused as of November 2023. However, Bekem is expected to infuse the funds in RGHPL, in a timely manner, for the project completion if there is any delay in equity infusion from SACL.

Undertaking O&M as per concession requirement; cash flows and returns exposed to inflation risks – Post commissioning, the company will have to undertake O&M of the project stretch as per the concession agreement to avoid any deductions from its annuities. Any significant deduction from annuities or increase in routine and MM expenses from the budgeted level could impact its debt servicing coverage ratio. RGHPL'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. Hence, its ability to keep the O&M expenses within budget will be a key rating sensitivity during the operations stage.

Liquidity position: Adequate

As the project is under construction, the company does not maintain any significant liquidity on its books. However, the liquidity position is supported by undrawn sanctioned term loan, grants receivable from the NHAI and pending equity infusion from sponsors.

Rating sensitivities

Positive factors – The rating could be upgraded if the project achieves PCOD without any time and cost overruns, along with receipt of the first annuity without any major deductions.

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 EPC contractor/sponsor thereby heightening the equity mobilisation risk, or if delays in the receipt of grant or equity infusion increase the funding risks for the project.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Roads – Hybrid Annuity
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in October 2021, Rajamahendravaram Greenfield Highway Private Limited is a special purpose vehicle promoted by Bekem Infra Projects Private Limited (Bekem) and Sri Avantika Contractors (I) Limited (SACL) in the ratio of 51:49 for development, maintenance and management of four-laning of the access controlled new greenfield highway section of NH-365BG of length 29.462 km from Gurvaygudem village to Devarapalle village (Package-V) under inter corridor route under Bharatmala Pariyojana, in Andhra Pradesh on HAM basis.

The project was awarded through the competitive bidding process, as RGHPL emerged the lowest bidder with BPC of Rs. 622.0 crore and the first year O&M cost of Rs. 4.70 crore. The project was awarded by the NHAI on September 15, 2021, for a concession period of 17 years including construction period of two years (730 days) with September 26, 2022 as the appointed date. The concession agreement for the project has been signed on January 27, 2022.

Key financial indicators (audited): Not applicable as it 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		Current rating (FY2024)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as on Nov 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jan 08, 2024	Feb 13, 2023	-	-
1	Term loans	Long term	286.0	123.80*	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	-

*-disbursed loan amount; including mobilisation advances

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	Jun-2022	NA	Feb-2038*	286.00	[ICRA]A-(Stable)

Source: Company; *Linked to COD and Expected COD is January 2025

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

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