

January 23, 2024

SRC Infra Anantapur-Muchukota HAM Private Limited: [ICRA]BBB(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	271.50	[ICRA] BBB (Stable); assigned
Long-term – Interchangeable – Bank guarantee	(74.40)	[ICRA] BBB (Stable); assigned
Total	271.50	

*Instrument details are provided in Annexure I

Rationale

The assigned rating for SRC Infra Anantapur Muchukota HAM Private Limited (SAMHPL) 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, 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 the established track record of engineering, procurement, and construction (EPC) contractor and sponsor, SRC Infra Developers Private Limited (SRC, [ICRA]BBB+ (Stable)/[ICRA]A2) in the execution of road works. Further, the sponsor has provided a corporate guarantee and sponsor support undertaking to the lender to provide financial support in case of cost overruns during the construction phase, any shortfall in operations and maintenance (O&M) expenses and debt servicing in the operational phase at all times during the tenure of the facility provides comfort. The presence of structural features of the debt, such as the presence of escrow, a cash flow waterfall mechanism, provisions for Debt Service Reserves (DSRA) to the extent of 6 months' of principal and interest payment (P+I) and restricted payment clause with a minimum debt service coverage ratio (DSCR) of 1.1 times support the rating.

The rating also 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 (SCBs) 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 involved in under-construction projects including time and cost overrun risks. The project received appointed date on July 23, 2023 and it achieved physical progress of ~34.1% against scheduled progress of 23.13% as on November 30, 2023. Going forward, 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 DSCR. Further, the company'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.

The Stable outlook on the long-term rating reflects ICRA's opinion that SAMHPL will benefit from the strong project execution capabilities of the EPC contractor and commissioning of the project within the scheduled timelines.

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 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 grant. A stable revenue stream post the 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 top five SCBs + 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.

Comfortable coverage metrics and presence of structural features – SAMHPL is expected to have comfortable debt coverage metrics for the debt tenure. The credit profile is supported by the corporate guarantee and sponsor support undertaking provided by the sponsor for any financial support in case of cost overruns during the construction phase, any shortfall in O&M expenses and debt servicing in the operational phase at all times during the tenure of the facility provides comfort. Structural features of the debt, such as the presence of escrow, a cash flow waterfall mechanism, provisions for DSRA (6 months P+I) and restricted payment clause with a minimum DSCR of 1.1 times, provide comfort.

Track record of sponsor in executing road projects – The EPC contractor and sponsor, SRC, has more than two decades of experience in executing road projects for key authorities like the NHAI, Ministry of Roads and Transport and Highways (MORTH). Further, the company has a track record of completing the projects ahead of the schedule mitigating the execution risk to an extent.

Credit challenges

Execution risk related to project under construction – The company is exposed to project execution risk given its under-construction stage. The project has received the appointed date on July 23, 2023 and achieved physical progress of ~34.1% against scheduled progress of 23.1% as on November 30, 2023. SAMHPL's ability to commission the project in a timely manner and within the budgeted cost would be important from the credit perspective.

Equity mobilisation risk – The total estimated project cost of Rs. 692.36 crore is proposed to be funded by NHAI's grant of Rs. 319.24 crore, sanctioned debt of Rs. 271.5 crore and promoters' contribution of Rs. 101.62 crore. The promoters have infused Rs. 67 crore as on December 31, 2023 and the balance is likely to be infused by May 2024. However, any slowdown in execution of the existing order book or increase in working capital cycle is likely to adversely impact SRC's cash flows, which could ultimately result in equity mobilisation risk and remains a key rating monitorable.

Undertaking O&M as per concession requirement, cash flows and returns exposed to inflation risks – 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 increase in routine and major maintenance (MM) from the budgeted level could impact its DSCR. SAMHPL'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, adequate and within budgeted O&M 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 timely infusion of balance equity from sponsors.

Rating sensitivities

Positive factors – The rating could be upgraded if the project receives the first annuity without any material 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 increases the funding risks for the project.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology BOT (Hybrid Annuity) Roads
Parent/group support	Not applicable
Consolidation/standalone	Standalone

About the company

SRC Infra Anantapur-Muchukota HAM Private Limited (SAMHPL) is a special purpose vehicle (SPV) incorporated in December 29, 2022 promoted by SRC Infra Developers Private Limited for four laning of NH 544D from the existing km 346.300 of NH 44 (Design Chainage km 0.000) to km 39.380 (Design Chainage km 37.000) of Anantapur-Muchukota section in Andhra Pradesh on hybrid annuity basis under concession from NHAI. The company has signed a concession agreement for the project with NHAI on January 18, 2023 for 17 years including construction period of 2 years. It received the appointed date on July 23, 2023.

SAMHPL was awarded the project through a competitive bidding process with a BPC of Rs. 676.36 crore. The total project cost is Rs. 692.36 crore to be funded by equity of Rs. 101.62 crore (15% of project cost), debt of Rs. 271.5 crore (39%) and NHAI grant of Rs. 319.24 crore (46%).

Key financial indicators

Key financial indicators are not applicable as SAMHPL 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 November 30, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					January 23, 2024			
1	Term loan	Long-term	271.50	66.00	[ICRA]BBB (Stable)	-	-	-
2	Interchangeable – Bank guarantee	Long-term	(74.40)	NA	[ICRA]BBB (Stable)	-	-	-

Note: Amount in Rs. crore;

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple
Long-term – Non-fund based – Bank guarantee	Very 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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	FY2024	10.25%	FY2039	271.50	[ICRA]BBB (Stable)
NA	Interchangeable – Bank guarantee	FY2024	-	-	(74.40)	[ICRA]BBB (Stable)

Source: Company; amount in Rs. crore

[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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