February 21, 2024(Revised)

Shalimar Road Infrastructures Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	478.00^	478.00^	[ICRA]BBB- (Stable); reaffirmed
Long-term/ Short-term – Non-fund based – Bank guarantee	31.18	31.18	[ICRA]BBB- (Stable)/ [ICRA]A3; reaffirmed
Long-term/ Short-term – Unallocated	0.82	0.82	[ICRA]BBB- (Stable)/ [ICRA]A3; reaffirmed
Total	**510.00**	**510.00**	

Instrument details are provided in Annexure-I; ^Rs. 114.34 crore of NFB as sub-limit of term loan for mobilisation advance

Rationale

The rating reaffirmation for Shalimar Road Infrastructures Private Limited (SRIPL) factors in the inherent benefits of the hybrid-annuity based nature of the project including upfront availability of right of way (RoW)[1], inflation-linked[2] revisions to the bid project cost (BPC) during the construction period, and relatively lower equity mobilisation risk, with 40% of the BPC to be funded by the authority during the construction period through a grant. The ratings positively consider the credit support provided by 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 restricted payment clause with a minimum debt service coverage ratio (DSCR) of 1.15 times. The ratings note the stable revenue stream expected post commissioning with 60% of the inflation-adjusted BPC being paid out as annuity, along with interest at the average of one-year MCLR[3] of the top five scheduled commercial banks (SCBs, to be reset every quarter) plus spread of 1.25%, and the inflation-adjusted O&M cost bid over the 15-year operations period by the strong counterparty, National Highways Authority of India [NHAI, rated [ICRA]AAA(Stable)].

The ratings consider the moderate financial risk profile of its sponsor – Shalimar Corp Limited (SCL), which has provided an undertaking towards cost overrun during the construction phase and to meet any shortfall in operations and maintenance (O&M) expenses. The ratings factor in the operational support from the joint venture (JV) partner APCO Infratech Private Limited (APCO) in the execution stage of the project. The project has achieved ~50% physical progress as on January 31, 2024. Given that project has scheduled COD timeline of September 2024, the special purpose vehicle's (SPV) ability to ramp-up project execution and/or get requisite timeline extension from the authority remains crucial from the credit perspective.

The ratings are, however, constrained by the execution risk involved in under-construction projects including time and cost overruns. Although the SPV has entered into a fixed-price [subject to price index multiple (PIM) adjustment component to be paid by the NHAI during the construction period] engineering, procurement, and construction (EPC) contract with SCL, the ability of the EPC contractor to timely complete the project within the stipulated cost remains to be seen. ICRA takes comfort from APCO providing technical support to SRIPL for the entire project, thereby mitigating the execution risk to an extent. While SCL has infused its entire portion of equity contribution for the project, APCO is expected to infuse its share of Rs. 41.4 crore by Q1 FY2025. Further, post commissioning, the company will have to undertake O&M of the project stretch as per the concession agreement to avoid any deductions from annuities. Any significant deductions from annuities or increase in routine and major maintenance (MM) from the budgeted level could impact its DSCR. SRIPL'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 rating reflects ICRA's opinion that SRIPL is expected to achieve COD within the scheduled timelines without any cost overruns supported by improved project execution.

Key rating drivers and their description

Credit strengths

Low inherent risks in HAM projects from NHAI – The inherent benefits of the hybrid-annuity based nature of the project include upfront availability of RoW, de-scoping of RoW pending beyond 180 days from the appointed date, inflation-linked revisions to the BPC during the construction period. Moreover, it faces relatively lower equity mobilisation risk with 40% of BPC to be funded by the authority during the construction period through a grant. Stable revenue stream post commissioning with 60% of the inflation-adjusted BPC being paid out as annuity, along with interest at the average of one-year MCLRs of the top five SCBs (to be reset every quarter) plus spread of 1.25%, and the inflation-adjusted O&M cost bid over the 15-year operations period by the NHAI, which is a strong counterparty, provide comfort.

Healthy debt coverage indicators and presence of structural features – The project is expected to achieve the commercial operations date (COD) within two years from the appointed date of September 29, 2022. The credit profile is supported by SCL's undertaking towards cost overrun during the construction phase and any shortfall in O&M expenses. Once operational, SRIPL is likely to have healthy debt coverage indicators with a cumulative DSCR of over 1.2 times as per ICRA's estimates. Further, the presence of structural features of the debt, including the presence of escrow, cash flow waterfall mechanism, provision for DSR (to be created out of the first two annuities), provision for creation of MMR and restricted payment clause with a minimum DSCR of 1.15 times provide comfort.

Moderate financial profile of sponsor and EPC contractor – SRIPL is a subsidiary of SCL, which will hold 74% shares, and the balance 26% shareholding will be held by APCO. The total estimated project cost of Rs. 1,158.0 crore is planned to be funded by NHAI's grant of Rs. 490.6 crore, external debt of Rs. 478.0 crore, promoter's contribution/equity of Rs. 159.4 crore (to be split between SCL and APCO in the ratio of shareholding) and the remaining Rs. 30 crore are to be funded by promoter's contribution. While SCL has infused its entire portion of equity contribution for the project, APCO is expected to infuse its share of Rs. 41.4 crore by Q1 FY2025.

Credit challenges

Execution risk related to under-construction project – The project has achieved ~50% physical progress as on January 31, 2024. The SPV remains exposed to residual execution risk including risk of delays and cost overruns. However, the risk is mitigated to an extent by the fixed-price (subject to pass-through of PIM component), fixed-time contract executed with SCL. Given SCL's limited track record in road construction activity, the ability of the EPC contractor to complete the project within the stipulated cost and time remains to be seen. APCO, which has a long execution track record, would provide technical support to SRIPL for the entire project. This mitigates the execution risk to an extent. Given that project has scheduled COD timeline of September 2024, the SPV's ability to ramp-up project execution and/or get requisite timeline extension from the authority remains crucial from the credit perspective.

Project cash flows and returns exposed to inflation risks – The project's cash flows and returns are exposed to inflation risk as O&M receipts, though linked to inflation (70% WPI and 30% CPI), may not be adequate to compensate for the increase in O&M/periodic maintenance expenses.

Undertaking road maintenance as per concession requirement – Post commissioning, the company will have to undertake O&M of the project stretch as per the concession agreement to avoid any deductions from annuities. Any significant deductions from annuities or increase in routine and MM expenses from the budgeted level could impact its DSCR.

Liquidity position: Adequate

SRIPL's liquidity position is adequate. The pending EPC cost of ~Rs. 580 crore as on December 31, 2023 can be funded through NHAI grant (Rs. 245.3 crore), Rs. 46.4 crore of equity and the remaining by Rs. 277.2 crore of undrawn debt. Further, the O&M expenses and interest servicing for the first six months following the COD are funded as a part of the project cost.

Rating sensitivities

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

Negative factors – Pressure on the ratings could arise if the project progress is delayed, leading to significant time and cost overruns, or if there is a deterioration in the credit profile of the sponsor, or if delays in receipt of grant or equity infusion results in increased funding risks for the project. The ratings could come under pressure if there is any non-adherence or dilution of the debt structure or increase in indebtedness.

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

Shalimar Road Infrastructures Private Limited (SRIPL) is an SPV incorporated by Shalimar Corp Ltd (SCL) and APCO Infratech Pvt Ltd (APCO) to undertake the design, build, operate and transfer of 42.8 km road stretch on hybrid annuity basis under concession from the NHAI. The project entails developing the six lane Jhanki–Sargi section of NH-130 CD Road from 00+000 to 42+800 Km under Raipur–Visakhapatnam Economic Corridor in Chhattisgarh on HAM (package Cg-1) basis. APCO will hold 26% equity stake in the HAM SPV and the remaining 74% is held by SCL. The construction and operations period for the project is 2 years and 15 years, respectively. The concession agreement was signed on March 28, 2022 and the appointed date is received on September 29, 2022. As on December 31, 2023, the project has achieved 47.03% of physical progress.

Key financial indicators (audited)

The key financial indicators are not applicable as SRIPL 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 Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Feb 21, 2024	Nov 09, 2022	-	-
1	**Term loans**	Long term	478.00*	200.8	**[ICRA]BBB- (Stable)**	**[ICRA]BBB- (Stable)**	-	-
2	**Bank guarantee**	Long term and short term	31.18	--	**[ICRA]BBB- (Stable)/ [ICRA]A3**	**[ICRA]BBB- (Stable)/ [ICRA]A3**	-	-
3	**Unallocated**	Long term and short term	0.82		**[ICRA]BBB- (Stable)/ [ICRA]A3**	**[ICRA]BBB- (Stable)/ [ICRA]A3**	-	-

**-Rs. 114.34 crore of NFB as sub-limit of term loan for mobilisation advance*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple
Long-term/ Short-term – Non-fund-based – Bank guarantee	Very Simple
Long-term/ Short-term – Unallocated	Not Applicable

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**	August 2022	NA	September 2038	478.00*	[ICRA]BBB- (Stable)
NA	**Bank guarantee**	NA	NA	NA	31.18	[ICRA]BBB- (Stable)/ [ICRA]A3
NA	**Unallocated**	NA	NA	NA	0.82	[ICRA]BBB- (Stable)/ [ICRA]A3

*Source: Company * Rs. 114.34 crore of NFB as sub-limit of term loan for mobilisation advance*

Please click here to view details of lender-wise facilities rated by ICRA

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

Corrigendum

Link for BOT (Hybrid Annuity) Roads Methodology is updated.

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ABOUT ICRA LIMITED

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