

March 08, 2024

## Eastern Ghats Highway Project Pvt. Ltd.: [ICRA]A- (Stable) reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	652.00	652.00	[ICRA]A- (Stable); Reaffirmed
Long-term – Non-fund based – Interchangeable – Bank guarantee	(153.57)	(153.57)	[ICRA]A- (Stable); Reaffirmed
Long-term – Non-fund based – Bank guarantee	41.89	41.89	[ICRA]A- (Stable); Reaffirmed
<b>Total</b>	<b>693.89</b>	<b>693.89</b>	

\*Instrument details are provided in Annexure I

### Rationale

The rating reaffirmation for Eastern Ghats Highway Project Pvt. Ltd (EGHPPL) factors in the adequate credit profile of its sponsors and engineering, procurement and construction (EPC) contractors, Bekem Infra Projects Private Limited (Bekem, rated [ICRA]A (Stable)) and Max Infra (I) Private Ltd (Max Infra, rated [ICRA]A- (Stable)/[ICRA] A2+), who has equal shareholding to undertake the hybrid-annuity (HAM) project. The rating notes the healthy financial profile of the sponsors and factors in the sponsor support undertaking provided by Bekem as well as Max Infra to the lender to offer 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 and is a positive. The rating considers the inherent benefits of the hybrid-annuity (HAM) based nature of the project including upfront availability of right of way (RoW), inflation-linked 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 grants.

The rating positively considers the presence of structural features of the debt, like the escrow, a cash flow waterfall mechanism, provisions for DSRA (6 months P+I), creation of major maintenance reserve (MMR) and restricted payment clause with a minimum debt service coverage ratio (DSCR) of 1.1 times. The rating derives comfort from 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 the annuity provider, the National Highway Authority of India (NHAI, rated [ICRA]AAA(Stable)), 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 October 17, 2022 and the company has achieved 36.15% physical completion as on January 31, 2024 against scheduled completion of 58.56%. The physical progress is lower than envisaged due to challenges faced in the tunnel portion of the stretch and delay in approvals for change of scope from the authority. The Independent Engineer (IE) recommended 100 days of extension of time (EOT) for completing the project and the final approval from the authority is awaited. The company's ability to commission the project, in a timely manner and within the budgeted cost, would be important from the credit perspective. EGHPPL is also exposed to pending equity mobilisation risks as Rs. 98.37 crore of equity is yet to be infused as on January 31, 2024. However, the promoters are expected to infuse the funds in EGHPPL, in a timely manner, for the project completion. 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 & repair (MMR) from the budgeted level could impact its DSCR. Further, EGHPPL'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 rise in O&M/periodic maintenance expenses.

The Stable outlook on the long-term rating reflects ICRA's opinion that EGHPL will benefit from the strong project execution capabilities of the EPC contractors, Bekem and Max Infra.

## 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), inflation-linked revisions to the 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 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 1-year MCLR of the 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, provide comfort.

**Comfortable projected debt coverage indicators for the project** – The credit profile is supported by the healthy financial profile of the sponsors, Bekem and Max Infra and the sponsor support undertaking provided towards cost overrun during the construction phase, any shortfall in O&M expenses and debt servicing in the operational phase. Once operational, EGHPL is expected to have a healthy DSCR 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) and creation of MMR and restricted payment clause with a minimum DSCR of 1.1 times, provide comfort.

### Credit challenges

**Limited track record of the sponsor/EPC contractor in undertaking HAM projects** – EGHPL is a subsidiary of Bekem and Max Infra, which have experience in hydro mechanical works and tunnelling works, respectively. The sponsors have not executed any HAM project in the past and its ability to complete the project, in a timely manner, will be a key monitorable.

**Execution risk related to project under construction** – The project has received the appointed date on October 17, 2022 and achieved physical progress of ~36.1% as on January 31, 2024 against 58.56% targeted physical progress. The physical progress is lower than envisaged due to challenges faced in geological conditions in the tunnel portion of the stretch and delay in approvals for change of scope from the authority. The Independent Engineer recommended 100 days of extension of time (EOT) for completing the project and the final approval from the authority is awaited. The company's ability to commission the project in a timely manner and within the budgeted cost would be important from the credit perspective. EGHPL is also exposed to pending equity mobilisation risks, as Rs. 98.37 crore of equity is yet to be infused as on January 31, 2024. However, the promoters are expected to infuse the funds in EGHPL, in a timely manner, for the project completion.

**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 rise in routine and MMR expenses from the budgeted level could impact its DSCR. EGHPL'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 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 the receipt of annuity, in a timely manner, 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 sponsors, or if the delays in the receipt of grant or equity infusion increase the funding risks for the project.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">BOT (Hybrid Annuity) Roads</a>
Parent/group support	Not applicable
Consolidation/standalone	The rating is based on the company’s standalone financial profile

## About the company

Eastern Ghats Highway Project Private Limited (EGHPPL) was incorporated on February 12, 2022 as a special purpose vehicle by Bekem Infra Projects Private Limited and Max Infra (I) Private Limited (the project sponsors) with the objective to develop, maintain and manage the project of six-laning of the access-controlled greenfield highway section on NH-130CD (Kandili – Tumbigura) of 22.533 km from Kandili village to Tumbigura village (Design Chainage 342+500 to 365+033) under Raipur-Visakhapatnam Economics Corridor, in Odisha (Package-OD-8) on Hybrid Annuity Mode.

EGHPPL was awarded the project through a competitive bidding process with a BPC of Rs. 1,396.09 crore and a first year O&M cost of Rs. 1.8 crore. The total project cost is Rs. 1,529.41 crore and is to be funded by a promoter contribution of Rs. 218.46 crore (14.28% of project cost), debt of Rs. 652 crore (42.63%) and an NHAI grant of Rs. 658.95 crore (43.08%).

## Key financial indicators

Key financial indicators are not applicable as EGHPPL 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 Jan 31, 2024 (Rs. crore)	Date & Rating in	Date & Rating in	Date & Rating in	Date & Rating in
					March 08, 2024	Jan 06, 2023	-	-
1	Term loan	Long-term	652.00	168.00*	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-
2	Interchangeable-Bank guarantee	Long-term	(153.57)	(130.13)^	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-
3	Bank guarantee	Long-term	41.89	NA	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-	-

Note: Amount in Rs. crore;

\* Term loan of Rs. 168.00 crore includes loan from Union Bank of India (Rs. 98.50 crore) & Bank of Baroda (Rs. 69.50 crore).

^Interchangeable Bank Guarantee is used for mobilization advance purpose and this is a sublimit of the Term Loan. Total BG is availed from Union Bank of India

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Term loan	Simple
Long-term – Non-fund based – Interchangeable – Bank guarantee	Very 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	FY2023	NA	FY2038	652.00	[ICRA]A- (Stable)
NA	Interchangeable-Bank guarantee	FY2023	NA	FY2038	(153.57)	[ICRA]A- (Stable)
NA	Bank guarantee	FY2023	NA	FY2038	41.89	[ICRA]A- (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**

## ANALYST CONTACTS

**Rajeshwar Burla**

+91 40 6939 6443

[rajeshwar.burla@icraindia.com](mailto:rajeshwar.burla@icraindia.com)

**Ashish Modani**

+91 20 6606 9912

[ashish.modani@icraindia.com](mailto:ashish.modani@icraindia.com)

**Vinay Kumar G**

+91 40 6939 6424

[vinay.g@icraindia.com](mailto:vinay.g@icraindia.com)

**Vamshi Kinnera**

+91 40 6939 6420

[vamshi.kinnera@icraindia.com](mailto:vamshi.kinnera@icraindia.com)

## RELATIONSHIP CONTACT

**L Shivakumar**

+91 22 6114 3406

[shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

**Ms. Naznin Prodhani**

Tel: +91 124 4545 860

[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

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## ICRA Limited



### Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



### Branches



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