

April 05, 2024

## GV Road Projects Private Limited: Rating reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term loan facilities	235.0	212.60	[ICRA]A (Stable); reaffirmed
<b>Total</b>	<b>235.0</b>	<b>212.60</b>	

\*Instrument details are provided in Annexure I

### Rationale

The rating reaffirmation for GV Road Projects Private Limited (GVR) factors in the operational nature of the project with receipt of six semi-annuities, including operations and maintenance (O&M) payments from the National Highways Authority of India (NHAI, rated [ICRA]AAA/Stable) in a timely manner without any major deductions, and creation of a debt service reserve account (DSRA) equivalent to six months of debt obligations and major maintenance reserve (MMR) for periodic maintenance. Although there were 15-20 days delay in the receipt of the first six semi-annuities on account of administrative reasons, there is an adequate cushion of more than 30 days between the scheduled annuity due date and the debt repayment date mitigating the risk to an extent. The rating positively notes the structural features of debt including presence of escrow, cash flow waterfall mechanism and a funded debt service reserve equivalent to six months of debt servicing obligations.

The rating notes the presence of structural features of the debt, including the presence of escrow, cash flow waterfall mechanism and restricted payment clause with a debt servicing coverage ratio (DSCR) of 1.25 times, which provide credit support. The rating considers the stable annuity revenue stream over the term of the concession from the project owner and annuity provider, NHAI, which is a key Central Government entity responsible for the development and maintenance of India's national highway programme. GVR has appointed BVSR Constructions Private Limited (BVSR, rated [ICRA]BBB+(Stable)) as the operations and maintenance (O&M) contractor to take up routine maintenance activities at an annual fixed-price contract. BVSR has a demonstrated track record of executing O&M works within the budgeted time and cost in the road sector.

The rating, however, is constrained by the exposure of GVR's cash flows to interest rate risk, given the floating nature of interest rates for the project loan. Moreover, any significant reduction in the Reserve Bank of India's (RBI) bank rate could adversely impact its coverage indicators as annuity payments are linked to the bank rate. GVR's cash flows are also 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 debt metrics of the project remains sensitive to deductions in annuity and O&M receipts. Hence, the company must ensure satisfactory upkeep of the carriageway and undertake O&M of the project stretch as per the Concession Agreement to avoid any deductions from annuities. Any significant deductions from the annuities or rise in routine and MM expenses from the budgeted level could impact its coverage metrics and remains a key rating monitorable. The rating also factors in the asset concentration risk, owing to the single asset nature of the project operations.

The Stable outlook on the long-term rating reflects ICRA's opinion that GVR will continue to benefit from timely receipt of annuity and O&M payments from a strong counterparty and healthy debt coverage metrics.

### Key rating drivers and their description

#### Credit strengths

**Annuity nature of project with track record of receipt of six semi annuities** – The project will have a stable annuity revenue stream over the term of the concession from the project owner and annuity provider, the NHAI, which is a key Central

Government entity responsible for the development and maintenance of India's national highway programme. As per the Concession Agreement, GVR will be receiving 30 semi-annuities starting six months from completion totalling to 60% of the final project completion cost, along with interest on the residual annuities payable (at bank rate + 3%), and the inflation-adjusted O&M cost bid over the 15-year operations period from the project owner and authority (NHAI). GVR has received six semi-annuity payments, including O&M payment, without any penalties/deductions. Although the company received the annuity payments from NHAI within 15-20 days from the annuity date, there is a 30-day gap between the annuity date and the debt servicing date mitigating the risk to an extent. This, along with availability of a debt servicing reserve account (DSRA) equivalent to six months principal and interest, provides cushion in case of any delays in receipt of annuities.

**Healthy debt coverage metrics and structural features** – The rating derives comfort from healthy projected DSCR for the debt duration. The rating considers the presence of structural features such as DSRA equivalent to six months principal and interest in the form of fixed deposits, escrow mechanism and restricted payment covenant with lock-up DSCR of 1.25 times.

### Credit challenges

**Project returns exposed to changes in bank and inflation risk** – The project's cash flows and returns are exposed to the interest rate risk and are dependent on the spread between the interest rate applicable to annuities and the interest rate charged by lenders. The interest on the outstanding annuities from the NHAI is linked to the bank rate, while the interest rate charged by lenders is linked to their respective MCLR. Further, GVR's cash flows 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.

**Lane availability to be ensured for annuity payments** – GVR's source of income is the annuity, interest on outstanding annuities and annual O&M payments from the NHAI. GVR entered into a fixed-price O&M contract for taking up routine and MM activities with its sponsor, BVSR. BVSR has an established track record of O&M in the road construction for more than 15 years. Hence, any material deterioration in BVSR's credit profile impacting GVR's ability to undertake maintenance activities will remain a monitorable. The company has created MMR of Rs. 5.90 crore till March 2024 and is in line with the lender's base case estimates. GVR expects to complete the first MM cycle with an estimated outlay of Rs. 14.04 crore. ICRA notes that the MM cost estimates are significantly lower than ICRA's base case assumptions and its ability to complete the MM within the budgeted costs remains a key rating monitorable.

### Liquidity position: Adequate

The company's liquidity position is adequate. The cash flows from operations are expected to be sufficient for the debt repayment obligations of Rs. 22.8 crore in FY2025 and Rs. 23.5 crore in FY2026. There is a gap of around one month between the scheduled annuity payment date and the debt repayment date, which provides cushion in case of a delay in receipt of the annuity. Also, it created a DSRA equivalent to six months of debt obligations, which supports its liquidity in case of any delay in annuity receipt.

### Rating sensitivities

**Positive factors** – The rating could be upgraded if the company receives annuities and O&M payments without any material deductions in a timely manner, along with completion of the first MM exercise within the budgeted costs.

**Negative factors** – Major deductions or delays in receipt of semi-annual annuities or O&M payments, or an increase in the O&M expenses or any additional debt availed by the SPV leading to deterioration in debt coverage indicators or non-adherence to the debt structure may trigger a rating downgrade.

## Analytical approach

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

## About the company

GV Road Projects Private Limited (GVRPPL) is a subsidiary of BVS Road Constructions Private Limited (sponsor). GVRPPL is an SPV formed to undertake the rehabilitation and upgradation of Giddalur (km-212.983) to Vinukonda (km-322.80) in Andhra Pradesh (total design length of 112.797 km) to two-lane with paved shoulder under HAM basis. The company signed a 17-year concession agreement (including construction period of two years) on May 07, 2018, with the NHAI. The project received provisional COD in December 2020 and final COD on November 07, 2022 for the entire stretch.

## Key financial indicators (audited)

GVR (Standalone)	FY2022	FY2023
	Audited	Audited
Operating income (Rs. crore)	65.87	78.6
PAT (Rs. crore)	0.5	7.9
OPBDIT/OI (%)	69.6%	67.6%
PAT/OI (%)	0.8%	10.0%
Total outside liabilities/Tangible net worth (times)	87.0	30.8
Total debt/OPBDIT (times)	7.7	6.5
Interest coverage (times)	1.7	2.4

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company, ICRA Research; GVR follows Ind AS and key ratios are not representative of actual cash flows

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

	Instrument	Current Rating (FY2025)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Feb 28, 2024 (Rs. crore)	Date & Rating	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022
					April 05, 2024			
1	Term loan	Long-term	212.60	212.6	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	-

## Complexity level of the rated instruments

Instrument	Complexity Indicator
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	February 2021#	8.65%*	Feb 2034	212.6	[ICRA]A (Stable)

Source: Company; #Refinanced from Canara Bank, \*- current interest rate

[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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