April 30, 2024

Chatra Expressways Private Limited: Provisional rating withdrawn and [ICRA]BBB+ (Stable) simultaneously assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	715.00	711.90	Provisional [ICRA] A- (Stable) withdrawn and [ICRA]BBB+(Stable) simultaneously assigned
Total	**715.00**	**711.90**	

**Instrument details are provided in Annexure-I*

Rationale

The rating assigned for Chatra Expressways Private Limited (CEPL) favourably factors in the adequate sponsor profile of Tracks and Towers Infratech Private Limited (TTIPL, rated [ICRA] A(Stable)/ [ICRA] A1), which is undertaking the engineering, procurement and construction (EPC) for the project. CEPL is promoted by TTIPL and Rail Vikas Nigam Limited (RVNL) in the ratio of 51:49 to undertake the hybrid annuity mode (HAM) project. TTIPL has provided a corporate guarantee for availing the loan from the lender till receipt of the first annuity. Further, TTIPL has provided an undertaking towards financial support in case of cost overrun during the construction phase, any shortfall in operations and maintenance (O&M) expenses and debt servicing in the operational phase as per the lender's approved base case business plan.

The rating takes into account 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 a grant. 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, however, remains constrained by the execution risks as the project is yet to receive appointed date due to pending RoW. The same is likely to be received by July 2024. As per the Concession Agreement (CA), if the appointed date is not received before the first anniversary of the CA signing date (June 28, 2023), the agreement is deemed to be terminated unless it is mutually agreed by both parties. CEPL and the NHAI are willing to continue the project mitigating the risk of deemed termination. Further, the execution risk is mitigated by the fixed-price, fixed-time contract and adequate project execution capabilities of TTIPL. 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 debt servicing coverage ratio. Timely support from promoters to fund any shortfalls due to delays in grant or any cost overruns during the construction phase will remain crucial. Further, CEPL'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 project stretch is a perpetual pavement and is expected to have high share of commercial traffic. The O&M assumptions considered are lower than ICRA's benchmark estimates and the ability of the special purpose vehicle (SPV) to undertake the O&M within the budgeted costs remains a key rating monitorable.

The Provisional [ICRA]A- (Stable) rating assigned earlier to the term loan has been withdrawn on account of changes in the terms of the loan. The provisional rating assigned earlier to the term loan factored in the execution of corporate guarantee from both the sponsors till the receipt of first annuity. However, as per the revised terms, the term loan will no longer be backed by any corporate guarantee from RVNL.

The Stable outlook on the rating reflects ICRA's opinion that CEPL will benefit from hybrid annuity nature of the project, adequate sponsor and EPC contractor profile.

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 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 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 post 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 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.

Adequate sponsor profile – CEPL is a subsidiary of TTIPL, which has over three decades of experience in executing railway projects. TTIPL holds 51% of the shareholding in CEPL, while the remaining 49% of the shareholding is held by RVNL. TTIPL has provided a corporate guarantee till receipt of the first annuity. Further, TTIPL provided an undertaking towards cost overrun support during the construction phase, any shortfall in O&M expenses and debt servicing in the operational phase supporting the credit profile.

Adequate coverage indicators and presence of structural features – Once operational, CEPL is expected to have adequate debt coverage indicators. This provides the special purpose vehicle (SPV) adequate cushion to withstand any adverse movement in the bank rate and inflation to a major extent. Moreover, the sponsor's undertaking towards cost overrun during the construction phase and any shortfall in O&M expenses offers comfort. Further, the presence of structural features of the debt, including the presence of escrow, cash flow waterfall mechanism, provision for creation of six months' DSR to be created out of the first two annuities), and MMR supports its credit profile.

Credit challenges

Execution risk related to project under construction – The company is exposed to project execution risks as the construction has not yet commenced and is pending for announcement of the appointed date. It is expected to receive the appointed date by July 2024 post receipt of pending RoW, which is delayed mainly on account of pending forest clearances. As per the CA, if the appointed date is not received before the first anniversary of the CA signing date (June 28, 2023), the agreement is deemed to be terminated unless it is mutually agreed by both parties. CEPL and the NHAI are willing to continue the project mitigating the risk of deemed termination. Further, the execution risk is mitigated to an extent by the entering into fixed-price, fixed-time contract and adequate project execution capabilities of its sponsor/EPC contractor, TTIPL. The company's ability to commission the project in a timely manner and within the budgeted cost would be important from the credit perspective.

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 CA to avoid any deductions from annuities. Any significant deduction from annuities or increase in routine and MM from the budgeted level could impact its debt servicing coverage ratio. CEPL'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. The project stretch is a perpetual pavement and is expected to have high share of commercial traffic. The O&M assumptions considered are lower than ICRA's benchmark estimates and the ability of the SPV to undertake the O&M within the budgeted costs remains a key rating monitorable.

Liquidity position: Adequate

CEPL's liquidity position is adequate. The total project cost of Rs. 1,458.0 crore is proposed to be funded by equity of Rs. 237.30 crore (16% of project cost), sanctioned debt of Rs. 711.90 crore (49%) and NHAI grant of Rs. 508.80 crore (35%). The sponsors are adequately placed to fund the required equity.

Rating sensitivities

Positive factors – The rating could be upgraded if the project achieves PCOD without any time and cost overruns.

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 sponsor, 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 BOT (Hybrid Annuity) Roads Policy on withdrawal of Credit Ratings
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in April 2023, Chatra Expressways Private Limited (CEPL) is an SPV promoted by TTIPL (51% stake) and RVNL (49% stake) to undertake development, maintenance and management works on Varanasi-Ranchi-Kolkata highway from Sonepurbigha village to junction with NH-22 (Chatra Bypass) near Chatra from km 184.700 to km 222.000 under Bharatmala Pariyojana in Jharkhand (Package-8) on Hybrid Annuity Mode.

CEPL was awarded the project through competitive bidding process as it emerged the lowest bidder with BPC of Rs. 1,271.99 crore. The total project cost of Rs. 1,458.0 crore is to be funded by equity of Rs. 237.30 crore (16% of project cost), debt of Rs. 711.90 crore (49%) and NHAI grant of Rs. 508.80 crore (35%).

Key financial indicators (audited)

Key financial indicators are not applicable as CEPL 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 (FY2025)				Chronology of rating history for the past 3 years		
	Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
				Apr 30, 2024	Nov 13, 2023	-	-
1 Term loans	Long term	711.90	-*	[ICRA]BBB+(Stable)	Provisional [ICRA]A- (Stable)	-	-

****-Yet to disburse***

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**	NA	NA	NA	711.90	[ICRA]BBB+(Stable)

Source: Company

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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About ICRA Limited:

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