June 21, 2024

H.G. Rewari Bypass Pvt. Ltd.: Continues on Rating watch with Developing Implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Term loan	220.00	220.00	[ICRA]AA-(CE); continues on Rating watch with Developing Implications
Total	**220.00**	**220.00**	

Rating Without Explicit Credit Enhancement	[ICRA]A

**Instrument details are provided in Annexure-1*

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement.

Rationale

The above rating is based on the strength of the corporate guarantee provided by H.G. Infra Engineering Limited (HGIEL; rated [ICRA]AA-(Positive)/[ICRA]A1+), the parent of H.G. Rewari Bypass Private Limited (HRBPL), for the rated bank lines. The rating continues to be on watch with developing implication, given a definitive agreement entered between HGIEL and Highway Infrastructure Trust (HIT) on May 03, 2023 for 100% stake sale in HRBPL to HIT. The transaction is expected to be completed in the near term. ICRA will continue to monitor the developments on the transaction, especially on the debt structure, and take appropriate action on the rating of HRBPL as and when further details are available.

Adequacy of credit enhancement

The guarantee is legally enforceable, irrevocable, unconditional and covers the entire amount and tenor of the rated instrument. Given these attributes, the guarantee provided by HGIEL is adequately strong to result in an enhancement of the rating of the said instrument to [ICRA]AA-(CE) against the rating of [ICRA]A without explicit enhancement. In case the rating of the guarantor is to undergo a change in future, the same would have a bearing on the rating of the aforesaid facility as well. The rating of this instrument may also undergo a change in a scenario, whereby in ICRA's assessment there is a change in the strength of the business linkages between the guarantor and the rated entity, or there is a change in the reputation sensitivity of the guarantor to a default by the rated entity or there is a change in the strategic importance of the rated entity for the guarantor.

Salient covenants of the rated facility

» *Any additional cash accruals in excess of DSCR of 1.32 times after meeting other normal obligations, including repayment of stipulated instalments, maintaining DSRA etc., will be swept for prepaying the facility in inverse order of maturity.*

» *Restricted payments clause for payment of dividends, extension of loans, etc.*

» *Debt Service Reserve Account shall be maintained during the tenor of the Facility for an amount equivalent to the ensuing 2 quarters debt obligations (Principal + Interest).*

» *Major maintenance reserve to be created as per lender's base case.*

Key rating drivers and their description

Credit strengths

PCOD achieved; receipt of two annuities reduces uncertainty regarding completion cost: HRBPL received the PCOD w.e.f. May 25, 2023 (on completion of ~95% works) and has received two proportionate annuities without any significant delay or deduction, barring Rs. 2.38 crore which was withheld from the second annuity. The same is owing to signing of supplementary agreement for PCOD-2 which is pending, the same is expected shortly, post which the amount would be released. The achievement of provisional completion for a major part of the project, reduces the risk related to the annuity timelines. The annuities are expected to be sufficient to meet the debt servicing obligations.

Annuity nature of the project with strong counterparty: The annuity nature of the project eliminates the traffic risk in the hybrid annuity model (HAM) road projects. As per the concession agreement, HRBPL will be receiving 30 semi-annual annuities starting six months from completion (or provisional completion) aggregating 60% of the final project completion cost. In addition, it will receive the 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, the NHAI, a key Central Government entity. The high certainty of cash flows (except for the Bank Rate and inflation) from a strong counterparty is a key strength for the company.

Healthy coverage indicators and presence of structural features: HRBPL is expected to maintain a healthy DSCR during the debt tenure. Structural features of the debt, including escrow, cash flow waterfall mechanism, DSRA equivalent to ensuing six months of debt obligation and creation of MMR and restricted payment clause provides comfort. Further, there is a buffer available of ~35 days between the annuity receipt date and the scheduled debt servicing date, which provides cushion in case of any unforeseen delays in annuity receipts.

Corporate guarantee from HGIEL, the sponsor: HGIEL, the sponsor of HRBPL, has an established execution track record in the civil construction industry, which benefits the company. HGIEL has provided an unconditional and irrevocable corporate guarantee for the bank facilities of HRBPL.

Credit challenges

Project cash flows and returns exposed to interest rate and inflation risk: The project's cash flows and returns are exposed to interest rate risks and depend on the spread between the RBI's Bank rate and the interest charged by lenders. The interest earned on the outstanding annuities are linked to the Bank Rate, while the interest payable on the project loan is linked to lender's MCLR. Further, HRBPL'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.

Ensuring lane availability with routine and periodic maintenance expenses within budgeted levels: HRBPL's sources of income are the annuity, interest on outstanding annuities and the annual O&M payments from the NHAI. Hence, ensuring assured lane availability and undertaking regular as well as periodic maintenance of the project within the budgeted costs with no deductions in annuity receipts, would remain important. In this regard, ICRA has taken comfort from the strong estimated cash flow and additional cushion built in the cost estimates for undertaking the O&M and MM expenses.

Residual execution risk: A project cost amounting to ~Rs. 7 crore was pending as on May 30, 2024, which is expected to be funded through internal accruals generated by the project. Any possibility of cost overruns is mitigated to an extent by the fixed- price, fixed-time contract with HGIEL and the established track record of HGIEL in road construction. Completion of the project within budgeted costs and timelines remains important from a credit perspective.

Liquidity position: Adequate

HRBPL's liquidity is expected to remain adequate as annuity payments from the authority have commenced and these are likely to be sufficient to meet the debt servicing obligations. The company has ~35 days cushion between the annuity receipt and debt repayment. Given the past track record of NHAI, annuity payments are estimated to be received within time. Further, the company has already created DSRA equivalent to 6 months of P+I obligations, which provides comfort.

Liquidity position of Guarantor, HGIEL: Adequate

HGIEL's liquidity remains adequate with healthy cash flows from operations supported by a stable working capital cycle, cash balances (~Rs. 200 crore as on Mar 31, 2024) and undrawn fund-based working capital limits. The average utilisation of its fund-based limits during the six-month period that ended in December 2023 was moderate at 51%. The company has principal repayments of Rs. 189 crore and equity commitment of ~Rs. 500 crore (for existing HAM projects) in FY2025. HGIEL is also likely to incur capex of Rs. 100-150 crore annually. The estimated cash flows from operations, along with balance monetization proceeds of ~Rs. 216 crore are expected to be sufficient for meeting its financial obligations. In addition, the company enjoys flexibility through provision to avail mobilization advances against bank guarantees.

Rating sensitivities

Positive factors – The rating watch will be resolved once the transaction gets consummated.

Negative factors – The rating watch will be resolved once the transaction gets consummated. Negative Pressure on the rating could arise, if the credit profile of the sponsor/guarantor deteriorates or the linkage with the sponsor, HGIEL, weakens. Any non-adherence to debt structure, additional indebtedness or delayed receipt of annuities will be a credit negative.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Roads – Hybrid Annuity
Parent/Group Support	Parent: H.G. Infra Engineering Ltd The assigned rating is based on the unconditional, irrevocable corporate guarantee extended by HRBPL's parent company, HGIEL.
Consolidation/Standalone	Standalone

About the company

HRBPL is a wholly owned subsidiary of HGIEL. HRBPL is a special purpose vehicle (SPV) formed on the basis of a 17-year concession agreement (including two years of construction period) entered on June 19, 2020 with the NHAI, as per which HRBPL has to undertake the construction of the proposed Rewari bypass (NH-11) as the feeder route in the Rewari district of Haryana through a private public partnership (PPP) model under the hybrid annuity mode. The project's construction started on January 15, 2021, and the PCOD was declared on May 25, 2023 (after EOT received, from January 14, 2023 to June 30, 2023).

In May 2023, definitive agreements were signed with Highways Infrastructure Trust (HIT) for the sale of H.G. Rewari Bypass Private Limited and the transaction is expected to be completed shortly.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	241.6	60.1
PAT	14.6	9.5
OPBDIT/OI	12.9%	49.7%
PAT/OI	6.1%	15.8%
Total outside liabilities/Tangible net worth (times)	2.6	1.9
Total debt/OPBDIT (times)	5.4	6.4
Interest coverage (times)	2.7	1.7

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Note: The company follows IndAS and the coverage ratios are not representative of the actual cash flows

About the guarantor

H.G. Infra Engineering Limited was incorporated in 2003 by Mr. Hodal Singh Choudhary, Mr. Girish Pal Choudhary, Mr. Vijendra Singh Choudhary and Mr. Harendra Singh Choudhary in Jodhpur, Rajasthan. HGIEL is accredited AA class by the Public Works Department (PWD) of the Government of Rajasthan (GoR) and is registered as an SS class contractor by the Military Engineer Services (MES). HGIEL, along with its ten HAM SPVs, is primarily involved in the construction of roads and highways in Odisha, Telangana, Rajasthan, Delhi, Andhra Pradesh, Haryana, and Uttar Pradesh.

For the detailed rating rationale on H.G. Infra Engineering Ltd, please click here.

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
					Jun 21, 2024	May 9, 2023	Jan 6, 2023	May 13, 2022	Jul 02, 2021
1	**Fund-based – Term loan**	**Long-term**	220.00	193.25	[ICRA]AA-(CE); Rating Watch with Developing Implications	[ICRA]AA-(CE); Rating Watch with Developing Implications	[ICRA]AA-(CE)(Stable)	[ICRA]AA-(CE)(Stable)	[ICRA]A+ (CE) (Positive)
2	**Non-fund based limit**	**Short-term**	-	-	-	-	[ICRA]A1+ (CE); reaffirmed and withdrawn	[ICRA]A1+ (CE)	[ICRA]A1(CE)

Complexity level of the rated instrument

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 analyzing 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, is available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN No.	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
NA	**Term loan**	FY2021	NA	FY2037	220.00	[ICRA]AA-(CE); Rating Watch with Developing Implications

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:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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