June 28, 2024

Agra Waste Water Management Private Limited: Rating assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	-	[ICRA]BBB+(Stable); assigned
Total	-	

**Instrument details are provided in Annexure-I*

Rationale

The assigned rating for Agra Waste Water Management Private Limited (AWWMPL) factors in the healthy financial position and proven track record of its sponsor, Vishvaraj Environment Private Limited (VEPL) in executing and operating drinking water and waste water treatment projects. AWWMPL has entered into a fixed-price engineering, procurement and construction (EPC) contract with VEPL for executing the project, which largely mitigates the cost overrun risk. The total project cost of Rs. 487.8 crore, is being funded through debt of Rs. 209.0 crore, equity contribution of Rs 89.6 crore and balance from grant from NMCG. The equity for this project has been fully infused; debt draw down has started and 8 (of 24) construction grant payments have been received from NMCG with ~45% physical progress as on May 30, 2024. Timely receipt of grants remain crucial for timely completion of project and hence remains a key monitorable.

The rating factors in the strong counterparty for the project - National Mission for Clean Ganga (NMCG) with presence of an escrow account, along with budgetary support by the Government of India (GoI) and a payment guarantee backstop by International Bank for Reconstruction and Development (World Bank). The rating draws comfort from the inherent strengths of the hybrid annuity model (HAM) projects with funding support in the form of a grant during the construction period and a stable revenue stream post commercial operations date (COD), which mitigates the revenue risk. Once operational, the project is expected to maintain healthy debt coverage indicators during the debt tenure to withstand any adverse movement in bank rates and inflation to a major extent. Further, the credit profile benefits from the presence of escrow and cash flow waterfall mechanism, funded debt service reserve account (DSRA) equivalent to six months of debt servicing obligations and restricted payment clause with a minimum DSCR of 1.2 times.

The rating is constrained by the inherent implementation risks, with land handover for decentralised sewage treatment plants (DSTPs)[1] pending due to administrative delays, which exposes the company to risks of delays and cost overruns. While the onus for providing clear work front lies with the project authority, any delays in handover leading to cost overruns, material delays or deduction in grant payments could be a credit negative. The debt repayment will commence from July 2025. However, in case of delays in project completion (COD scheduled in April 2025) and consequent impact on annuity receipts, the SPV may have to rely on financial support from the sponsor to tide over the interim cash flow mismatches. AWWMPL's cash flows and returns remain exposed to interest rate risk, considering the floating nature of interest rates for the project loan linked with UBI MCLR and EURIBOR, whereas the annuity income is linked to SBI's one-year MCLR (floating) plus 300 bps. Moreover, the credit profile is exposed to foreign exchange risk, given the Euro-denominated portion of the term loan remains unhedged at this juncture.

AWWMPL's operations and maintenance (O&M) receipts are linked to inflation (70% CPI and 30% WPI) under the concession agreement. Therefore, its cash flows may get impacted in case of higher-than-expected actual O&M (including periodic maintenance) expenses. Further, any usage of power above the guaranteed energy consumption as quoted in the bid may

[1] *The project consists of 3 large centralised STPs (together accounting for ~95% of the proposed treatment capacity of 177.6 MLD), and 10 small decentralised DSTPs contributing to the balance ~5%.*

result in higher expenses[2] than the O&M payment to be received from authority, thus affecting the project cash flows and return indicators. ICRA understands that an agreement would be entered with VEPL for O&M services, wherein (inflation-adjusted) O&M charges shall be payable along with similar commercial terms for key performance parameters, penalties, etc, for the entire O&M period, which mitigates the risk of higher-than-budgeted O&M expenditure. The credit profile is also exposed to the risk of deductions from annuity in case of non-adherence to the key performance indicators (KPIs) under the Concession Agreement.

The Stable outlook on the rating reflects ICRA's expectation that the project will continue to receive grants from NMCG without any major delays or deductions and will achieve the project completion in the timely manner within stipulated cost.

Key rating drivers and their description

Credit strengths

Established track record of sponsor in drinking water and waste water treatment project – VEPL's business profile is characterised by a decade of experience in EPC and O&M of drinking water and waste water treatment projects (WTP). In the past, it has handled O&M projects, which covered 2700 running km water distribution, networks and 3,25,000 house service connections. VEPL is currently handling 27 drinking WTPs with total handling capacity of 2280 million-litres-per-day (MLD) and is operating 15 STPs with a capacity of 530 MLD. AWWMPL has entered into a fixed-price EPC contract with VEPL and will be entering an inflation-linked O&M services contract as well, which provides comfort, given VEPL's experience. Further, VEPL has an adequate liquidity position to meet any contingency with unencumbered cash, bank balance and liquid investments of Rs. 78.3 crore as on March 31, 2024. It also has healthy financial flexibility available in terms of strong parentage with cash balance available to take care of contingencies. ICRA notes that VEPL has also given a corporate guarantee for long-term borrowings of AWWMPL till receipt of four consecutive O&M payments.

Strong counterparty with presence of escrow account along with budgetary support by GoI; lower inherent risk in NMCG HAM projects – This project, under the GoI's Namami Gange programme and implemented by NMCG, aims to reduce pollution and rejuvenate the Ganga River. It benefits from NMCG funding with 40% of the bid project cost funded during the construction period in the form of grants (eight equal instalments). NMCG is a Central Government entity and gets budgetary allocation from the GoI. The Concession Agreement requires NMCG to maintain a minimum balance of one milestone payment during the construction phase and one quarter's annuity payment during the O&M phase in an escrow account.

Healthy coverage indicators and presence of structural features – Once operational, AWWMPL is expected to maintain healthy debt coverage indicators during the debt tenure. This provides the SPV adequate cushion to withstand adverse movement in bank rates and inflation to a major extent. A DSRA equivalent to six months' debt service obligations, funded as part of the project cost, provides comfort. AWWMPL also enjoys credit support provided by other structural features of the debt, including the presence of escrow, cash flow waterfall mechanism and restricted payment clause with a minimum DSCR of 1.2 times.

Credit challenges

Inherent execution risk related to projects under construction – The project is under execution with ~45% physical progress achieved as on May 31, 2024 and remains exposed to inherent risks of execution including risks of delays and cost overruns, with land handover for decentralised sewage treatment plants (DSTPs, forming ~5% of the total capacity) pending due to administrative delays, which exposes the company to risks of time and cost overruns. While the onus for providing clear work front lies with the project authority, any delays in handover leading to cost overruns, delays or deduction in annuity payments would be a credit negative. Timely receipt of grants remain crucial for timely completion of project and hence remains a key

[2] *In case of energy consumption exceeding Guaranteed Energy Consumption, AWWMPL shall be liable to pay liquidated damages in addition to the excess energy cost.*

monitorable. The project completion is scheduled for April 2025, and timely achievement of project completion is a key monitorable. While the cost overrun risk is mitigated by the fixed-price EPC contract with VEPL, timely support from the same for debt repayment in case of delay in achieving COD or delay in annuity payments is crucial from the credit perspective.

Project cash flows and returns exposed to O&M expenditure and inflation risks – AWWMPL's O&M receipts are linked to inflation (70% CPI and 30% WPI) under the concession agreement. Therefore, its cash flows may get impacted in case of higher-than-expected actual O&M (including periodic maintenance) expenses. ICRA understands that an agreement would be entered with VEPL for O&M services, wherein (inflation-adjusted) O&M charges shall be payable along with similar commercial terms for key performance parameters, penalties, etc, for the entire O&M period, which mitigates the risk of higher-than-budgeted O&M expenditure. This provides comfort, given VEPL's experience. Post commissioning, revenues/cash flows of the SPV would be in the form of annuities (compensating for 60% of the inflation-adjusted bid project cost), along with interest on the balance annuities, O&M charges, and power charges. In case of non-adherence to the O&M KPIs, there can be deductions from the payment by NMCG. Further, any usage of power above the guaranteed energy consumption as quoted in the bid may result in higher expenses than the O&M payment to be received from authority, which exposes the company to cash flow mismatches. Therefore, undertaking regular O&M to maintain specified output quality, while keeping O&M cost and power cost within the budgeted levels, remains critical and would be a key rating monitorable.

Project returns exposed to interest rate and foreign exchange risk – AWWMPL's cash flows and returns remain exposed to interest rate risk, considering the floating nature of interest rates for the project loan linked with UBI MCLR and EURIBOR, whereas the annuity income is linked to SBI's one-year MCLR (floating) plus 300 bps. Moreover, the credit profile is exposed to foreign exchange risk, given the Euro-denominated portion of the term loan remains unhedged at this juncture.

Liquidity position: Adequate

The project is presently under construction. The total estimated project cost of Rs. 487.8 crore is being funded by equity of Rs. 89.6 crore (fully infused), Rs. 209.0 crore by external debt (~Rs. 40 crore drawn down in INR as on March 31, 2024) and balance from grant from NMCG. The cost overrun, if any, is expected to be funded by the sponsor. Further, DSRA equivalent to six months of debt servicing obligations is funded as a part of the project cost.

Rating sensitivities

Positive factors – The rating could be upgraded if the project is completed within the expected timelines and budgeted costs and the first annuity is received on time, while maintaining healthy coverage metrics.

Negative factors – Negative pressure on rating 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/deductions in receipt of grant results in increased funding risks for the project.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Approach - Project Finance
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

AMWMPL, is an SPV, incorporated by VEPL (74% stake) and Vishvaraj Infrastructure Private Limited (26% stake) to develop STPs and the associated infrastructure under NMCG on HAM model in Agra, Uttar Pradesh, at three zones — (i) Dhandhupura, (ii) Northern and Tajganj Zone and (iii) Eastern Zone. The scope of work includes the development, operation and maintenance of 13 STPs [three centralised STPs (100 MLD, 35 MLD, 31 MLD) aggregating to ~ 95% of the capacity and ten decentralised STPs for the balance ~5%] with an aggregate capacity of 177.6-MLD. The construction and operations period for the project is 2 years and 15 years, respectively. The scheduled COD is April 04, 2025. The local body, UPJN, will oversee execution and provide local support, i.e., permissions, clearances and NMCG is responsible for financing the project and payments to the contractor.

Key financial indicators (audited)

Key financial indicators are not applicable as AWWMPL 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
					June 28, 2024	-	-	-
1	Issuer rating	-	-	-	[ICRA]BBB+ (Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer rating	NA

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	**Issuer rating**	NA	NA	NA	-	[ICRA]BBB+(Stable)

Source: Company

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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