

August 16, 2024

Poondiankuppam-Sattanathapuram Section Private Limited: Rating upgraded; outlook revised to Stable from Positive

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	985.47	985.47	[ICRA]AA-; upgraded from [ICRA]A; Outlook revised to Stable from Positive
Total	985.47	985.47	

*Instrument details are provided in Annexure-I

Rationale

The upgrade in the rating of Poondiankuppam-Sattanathapuram Section Private Limited (PSSPL) factors in the alleviation of project execution risk with receipt of provisional completion certificate-1 (PCC-1) w.e.f. from May 31, 2024 for 92% of physical length (52.24 km out of 56.8 km of stretch) and the advanced stage of project progress with ~97.68% of physical progress as of June 30, 2024. Further, the company has received all ten milestone grant payments from the National Highways Authority of India (NHAI, rated [ICRA]AAA (Stable)) in a timely manner. ICRA takes comfort from the gap of about 45 days between the scheduled annuity payment date and the debt servicing date, and the presence of debt service reserve (DSR) to mitigate any short-term cash flow mismatches. The company has created partial DSR of Rs. 14.66 crore and operations and maintenance (O&M) reserve of Rs. 32 crore as of June 2024, which is expected to take care of the O&M expenses and interest servicing for the first six months of operations, thereby supporting its credit profile.

The rating derives comfort from the strong financial profile and operational track record of its promoter and engineering, procurement, and construction (EPC) contractor – Oriental Structural Engineers Private Limited (OSEPL, rated [ICRA]AA (Stable)/[ICRA] A1+), which has an established track record in road construction and operations. Further, OSEPL has provided an undertaking for the cost overrun during the construction phase, supporting any shortfall in O&M expenses and debt obligations and a corporate guarantee to meet the shortfall in the event of termination. The rating also takes comfort from the stable revenue stream that is expected following the commissioning of the project with 60% of the inflation-adjusted BPC is paid out as annuity over the term of the concession period from the project owner and annuity provider, the NHAI, a key Central Government entity responsible for development and maintenance of India's national highway programme. The rating positively considers the credit support provided by the structural features of the debt, including the presence of escrow, a cash flow waterfall mechanism, provision for the creation of reserves and a restricted payment clause with a minimum DSCR of 1.15 times.

The rating, however, is constrained by the residual execution risks (albeit minimal) with balance completion cost of around Rs. 60 crore, which can be comfortably met from the undrawn debt and equity. The balance works are expected to be completed by September 2024 and remains a key rating monitorable. As per the settlement agreement, the authority has provided time till September 30, 2024 for completing the entire project work including balance construction works and punch list items. Further, the execution risk is mitigated by the advanced stage of project progress, fixed-price and fixed-time nature of the EPC contract and the strong project execution capabilities of EPC contractor, OSEPL.

ICRA takes note of the asset concentration risk owing to the dependency on a single project stretch for annuity receipt and the company is required to maintain the project stretch as per the concession terms. Any significant deductions from annuities or increase in routine and major maintenance (MM) from the budgeted level could impact the debt servicing coverage ratios. PSSPL's cash flows are exposed to inflation risk as O&M receipts, though linked to the inflation index (70% WPI and 30% CPI), may not be adequate to compensate for the actual increase in O&M/periodic maintenance expenses. The company will have to undertake O&M of the project stretch as per the concession agreement to avoid any deductions from annuities.

The Stable outlook on the rating reflects ICRA's opinion that PSSPL will receive annuities in a timely manner without any major deductions and maintain strong debt coverage metrics.

Key rating drivers and their description

Credit strengths

Operational status of the project – The project has received PCC-1 w.e.f. May 31, 2024, and thereby eliminating the project execution risk to a major extent. The company has achieved ~97.68% of physical progress as of June 2024 and is expected to complete the balance constructions works and punch list items as per the settlement agreement by September 2024. The first semi-annuity is anticipated to be received after 180 days from the PCC-1 date. ICRA takes comfort from the gap of about 45 days between the scheduled annuity payment date and the debt servicing date, and the presence of DSR to mitigate any short-term cash flow mismatches.

Established track record and strong financial profile of the sponsor and EPC contractor – PSSPL is a subsidiary of OSEPL, which has a long experience in the road construction segment. OSEPL has provided an undertaking for cost overrun during the construction phase, any shortfall in O&M expenses and debt obligations and corporate guarantee to meet the shortfall in the event of termination. OSEPL has a strong financial profile, which is supported by a regular stream of distribution from Oriental InfraTrust (OSEPL and its subsidiary Oriental Tollway Pvt Ltd cumulatively hold a 59.17% stake in Oriental InfraTrust).

Healthy coverage indicators and presence of structural features – PSSPL is expected to have healthy debt service coverage metrics during the debt tenure. This provides the SPV adequate cushion to withstand any adverse movement in inflation to a major extent. The credit profile is supported by structural features of the debt, such as the presence of escrow, a cash flow waterfall mechanism, provision for DSRA (25% of the principal and interest for six months to be created on or before COD and the remaining to be created out of the first two annuities) and creation of MMR provides comfort. In addition, ICRA notes the presence of reserves to meet regular O&M and interest obligations until the next scheduled annuity, cash sweep and restricted payment clause with a minimum DSCR of 1.15 times.

Credit challenges

Exposed to residual execution risks – The company is exposed to the residual execution risks (albeit minimal) with balance completion cost of around Rs. 60 crore, which can be comfortably met from the undrawn debt and equity. The balance works are expected to be completed by September 2024 and remains a key rating monitorable. As per the settlement agreement, the authority has provided time till September 30, 2024 for completing the entire project work including balance construction works and punch list items. Further, the execution risk is mitigated by the advanced stage of project progress, fixed-price and fixed-time nature of the EPC contract and the strong project execution capabilities of the EPC contractor, OSEPL.

Ensuring O&M as per concession requirement and risk of deduction from annuity – PSSPL's sources of income are the annuity, interest on outstanding annuities and the annual O&M payments from the NHAI. Hence, finalisation of the bid project cost will be important. Further, undertaking regular as well as periodic maintenance of the project as per specifications of the concession agreement will be important for the company to be receive annuities without any deductions. PSSPL's cash flows are exposed to inflation risks as 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. ICRA has noted that the SPV will be entering into a fixed-price O&M and MM contract with its sponsor — OSEPL.

Liquidity position: Adequate

PSSPL's liquidity position is adequate. The pending cost of ~Rs. 60 crore as on June 30, 2024 is expected to be funded by undrawn debt and promoter's contribution. The company is anticipated to receive the first annuity after 180 days from the PCC-1 date, which is likely to support the principal repayment of Rs. 9.6 crore and interest payments in FY2025. It has created DSRA and O&M reserve of Rs. 14.66 crore and Rs. 32.0 crore, respectively, as of June 2024, supporting its liquidity position.

Rating sensitivities

Positive factors – The rating could be upgraded upon sustained track record of annuity and O&M payments, along with receipt of the final completion certificate.

Negative factors – Pressure on the rating could arise if there are major deductions or delays in the receipt of semi-annual annuities or O&M payments, or if the O&M expenses significantly exceed the estimates. Increase in indebtedness leading to material reduction in debt coverage metrics or non-adherence to the debt structure may also trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Roads - Hybrid Annuity
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Poondiankuppam Sattanathapuram Section Private Limited (PSSPL) is a special purpose vehicle (SPV) promoted by Oriental Structural Engineers Private Limited (OSEPL) to undertake four-laning of the existing road on the Poondiankuppam to Sattanathapuram (design Ch km 67.000 to km 123.800) section of NH 45A (new NH-332) in Tamil Nadu under the NHDP Phase IV on design, build, operate and transfer (DBOT Annuity)/hybrid annuity model. As per the concession agreement (CA) signed between the NHAI and PSSPL on May 18, 2021, the concession period is 17 years (including a construction period of 730 days) from the appointed date (January 20, 2022). The project has received PCC-1 w.e.f. May 31, 2024.

Key financial indicators

Key financial indicators are not applicable as PSSPL is a project-stage company.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current (FY2025)				Chronology of rating history for the past 3 years					
FY2025				FY2024		FY2023		FY2022	
Instrument	Type	Amount Rated (Rs. crore)	Aug 16, 2024	Date	Rating	Date	Rating	Date	Rating
Fund-based facility – Term loan	Long Term	985.47	[ICRA]AA-(Stable)	07-Nov-2023	[ICRA]A (Positive)	02-Dec-2022	[ICRA]A (Stable)	27-Dec-2021	[ICRA]A (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based facility – 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	Fund-based facility – Term loan	November 2021	NA	NA	985.47	[ICRA]AA- (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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Branches



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