July 23, 2021

# GMR Ambala - Chandigarh Expressways Private Limited: Rating reaffirmed

### Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Long-term Fund-based – Term Loans | 236.48 | 245.15 | [ICRA]D reaffirmed |
| Total | **236.48** | **245.15** | |

**Instrument details are provided in Annexure-1*

## Rationale

The rating reaffirmation reflects the continued irregularities in servicing of term loan obligations by GMR Ambala-Chandigarh Expressways Private Limited (GACEPL) because of its poor liquidity and cash flow position with no toll collections on the project stretch due to toll suspension because of the ongoing protests by the farmers. Further, in FY2021, the arbitration case between GACEPL and National Highway Authority of India (NHAI) was awarded in favour of the NHAI, post which the pending negative grant liability has become payable. As per the escrow agreement and cash flow waterfall mechanism, the negative grant payments have priority over debt servicing. Hence, the cash flows will be constrained and remain inadequate for debt servicing. The rating is also constrained by the traffic-related risks inherent in a toll road project, including the risk of traffic diversion, resistance of users to pay toll and growth in toll-paying traffic.

GACEPL is exposed to the O&M risk associated with the project, including routine and periodic maintenance within budget and time.

## Key rating drivers and their description

### Credit strengths

**Not Applicable**

### Credit challenges

**Delays in debt servicing –** There has been continued irregularities in servicing of term loan obligations by GACEPL because of its poor liquidity position. The company's liquidity position has deteriorated with no toll collections on the project stretch due to toll suspension because of the ongoing protests by the farmers. The company reported toll collections worth Rs. 22.28 crore in FY2021 compared to Rs. 60 crore in FY2020. Further, in FY2021, the arbitration case between GACEPL and the NHAI was awarded in favour of the NHAI, post which the pending negative grant liability (of Rs. 66.41 crore plus interest) has become payable. As per the escrow agreement and cashflow water fall mechanism, the negative grant payments have priority over debt servicing, which will keep the liquidity position constrained. The project had a reserve for debt servicing (DSR), which has already been exhausted.

**Funding gap for SPV due to lower-than-expected traffic; adverse arbitration outcome –** Due to lower-than-initially-expected traffic on the stretch, given the diversion of traffic to alternate routes, the toll collections have remained weak and insufficient to meet its overall expenses as well as debt servicing requirements in the past. The company has been supported by the Group companies in the past. However, the extent of support required has been increasing sharply with disruption of toll collections and the liability of negative grant arising post the adverse outcome of the arbitration case are credit concerns.

**Exposure to risks inherent in BOT road projects –** Like any toll road project, the company remains exposed to the risks inherent in BOT road projects such as political acceptability of rate hikes linked to WPI year after year over the concession period, challenges arising from non-completion of adjacent/contiguous routes and risks related to traffic leakage, traffic diversion, user resistance to pay toll, etc. It also faces O&M risk associated with the project, including routine and periodic maintenance within the budget and time. GACEPL's cash flows are also exposed to interest rate risk, as it has floating nature of interest rates for the term loans.

## Liquidity position: Poor

The company's liquidity position is **poor** with cash flow from operations net of negative grant payments expected to be insufficient to meet its debt servicing obligation over the near term.

### Rating sensitivities

**Positive factors –** The rating could be upgraded if the company demonstrates sustained track record of regular debt servicing.

**Negative factors –** Not applicable

### Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Corporate Credit Rating Methodology<br>BOT Toll Road Projects in India<br>Policy on Default Recognition |
| **Parent/Group Support** | Not applicable |
| **Consolidation/Standalone** | The rating is based on the company's standalone financial profile |

## About the company

GACEPL is a wholly-owned subsidiary of the GMR Group–GMR Highways Limited (51.65%), GMR Infrastructure Limited (23.69%), GMR Energy Limited (24.66%). GACEPL is an SPV set up for executing a build operate transfer (BOT) toll-based project on a 20-year concession agreement (ending in May 2026) with the NHAI. The project scope entails improvement, operation and maintenance including strengthening, widening of the existing two-lane road to a four-lane dual carriage way of 35 km stretch of the Ambala-Chandigarh (NH-21/NH-22) highway. The project was completed on schedule and achieved the commercial operation date (COD) on November 14, 2008 and the toll collection on the project highway started from December 10, 2008.

### Key financial indicators (audited)

| GACEPL Standalone | FY2020 | FY2021 |
|---|---|---|
| Operating Income (Rs. crore) | 59.7 | 22.3 |
| PAT (Rs. crore) | -49.5 | -76.0 |
| OPBDIT/OI (%) | 75.4% | -1.2% |
| PAT/OI (%) | -82.9% | -341.2% |
| Total Outside Liabilities/Tangible Net Worth (times) | -2.83 | -2.23 |
| Total Debt/OPBDIT (times) | 10.2 | -1843 |
| Interest Coverage (times) | 0.9 | 0.0 |

*PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; Source: Company, ICRA research*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

## Rating history for past three years

| | Instrument | Current Rating (FY2022) | | | | Chronology of Rating History for the past 3 years | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Rated (Rs. crore) | Amount Outstanding as of Jun 28, 2021 (Rs. crore) | Date & Rating in | Date & Rating in FY2021 | | Date & Rating in FY2020 | Date & Rating in FY2019 |
| | | | | | 23-Jul-2021 | 8-Oct-2020 | 7-Aug-2020 | 25-Jul-2019 | 02-Aug-2018 |
| **1** | Term Loans | Long-term | 245.15 | 245.15 | [ICRA]D | [ICRA]D | [ICRA]BB (Stable) | [ICRA]BB (Stable) | [ICRA]BB+ (Stable) |

### Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| Long-term Fund-based – Term Loans | 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, is available on ICRA's website: www.icra.in

## Annexure-1: Instrument details

| ISIN No | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| NA | Term Loans | June 2015 | NA | March 2026 | 245.15 | [ICRA]D |

***Source:*** *Company*

## Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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