November 09, 2022

Shalimar Road Infrastructures Private Limited: Ratings assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating
Long-term - Fund-based – Term loan	478.00**	[ICRA]BBB- (Stable) assigned
Long-term/ Short-term – Non-Fund-based – Bank Guarantee	31.18	[ICRA]BBB- (Stable)/ [ICRA]A3 assigned
Long-term/ Short-term – Unallocated	0.82	[ICRA]BBB- (Stable)/ [ICRA]A3 assigned
Total	**510.00**	

**Instrument details are provided in Annexure-I*

***Rs. 114.34 crore of non-fund based limit (for BG against mobilisation advances) is a sub-limit of the term loan facility*

Rationale

The ratings assigned to Shalimar Road Infrastructures Private Limited (SRIPL) take into account the financial profile of its sponsor – Shalimar Corp Limited (SCL). ICRA notes that SCL has provided a sponsor's undertaking towards cost overrun during the construction phase, and to meet any shortfall in operations and maintenance (O&M) expenses. The ratings factor in the support from the joint venture (JV) partner APCO Infratech Private Limited (APCO) in the execution stage of the project. The ratings favourably consider the inherent benefits of the hybrid-annuity based nature of the project including upfront availability of right of way (RoW)[1], inflation-linked[2] revisions to bid project cost (BPC) during the construction period, and relatively lower equity mobilisation risk, with 40% of the BPC to be funded by the authority during the construction period through a grant. ICRA notes that one of the shareholders of SRIPL – APCO Infratech Pvt Ltd (APCO) is a financially strong entity with strong execution track record in the road sector. APCO will support the project in the under-construction phase. The ratings positively consider the credit support provided by the structural features of the debt, including the presence of escrow, cash flow waterfall mechanism, provision for debt service reserve (DSR, to be created out of the first two annuities), provision for creation of reserve for major maintenance (MMR), and restricted payment clause with a minimum debt service coverage ratio (DSCR) of 1.15 times. The ratings note the stable revenue stream expected post commissioning with 60% of the inflation-adjusted BPC being paid out as annuity, along with interest at the average of one-year MCLR[3] of the top five scheduled commercial banks (SCBs, to be reset every quarter) plus spread of 1.25%, and the inflation-adjusted O&M cost bid over the 15-year operations period by the strong counterparty, National Highways Authority of India [NHAI, rated [ICRA]AAA(Stable)].

The ratings are, however, constrained by the execution risk involved in the under-construction projects including time and cost overruns. The special purpose vehicle (SPV) has entered into a fixed-price (subject to price index multiple adjustment component to be paid by the NHAI during the construction period) engineering, procurement, and construction (EPC) contract with SCL, to offset risks pertaining to cost and time overrun. Given SCL's limited track record in road construction activity, the ability of the EPC contractor to timely complete the project within the stipulated cost remains to be seen. ICRA takes comfort from the fact that a part of the contract will be executed by APCO, which will also provide technical support to SRIPL for the entire project, thereby mitigating mitigates the execution risk to an extent. SRIPL is also exposed to equity mobilisation risk as a major part of the equity is yet to be infused. Further, post commissioning, the company will have to undertake O&M of the project stretch as per the concession agreement to avoid any deductions from annuities. Any significant deductions from annuities or increase in routine and major maintenance (MM) from the budgeted level could impact its DSCR. SRIPL'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.

Key rating drivers and their description

Credit strengths

Above average financial profile of sponsor and EPC contractor – SRIPL is a subsidiary of SCL, which will hold 74% shares, while the balance 26% shareholding is expected to be with APCO. The total estimated project cost of Rs. 1,039.22 crore is planned to be funded by NHAI's grant of Rs. 415.8 crore, external debt of Rs. 478.0 crore and promoter's contribution/equity of Rs. 159.4 crore (to be split between SCL and APCO in the ratio of shareholding). SRIPL is exposed to equity mobilisation risk as over 50% equity is yet to be infused as of October 2022. While SCL's financial profile is adequate to meet its equity commitment in the project, which is required to be infused over the construction period, any further significant investments in similar hybrid annuity model (HAM) project over the near term could impact its financial risk profile and will remain a key monitorable. Further, the other shareholder – APCO – is a financially strong entity with an established track record of operations in the road construction segment, which provides comfort to an extent.

Lower inherent risks in HAM projects from the NHAI – The inherent benefits of hybrid-annuity based nature of the project include upfront availability of RoW, de-scoping of RoW pending beyond 180 days from the appointed date, inflation-linked revisions to bid for project cost 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 through a grant. Stable revenue stream post commissioning with 60% of the inflation-adjusted BPC being paid out as annuity, along with interest at the average of one-year MCLRs of the top five SCBs (to be reset every quarter) plus spread of 1.25%, and the inflation-adjusted O&M cost bid over the 15-year operations period by the NHAI, which is a strong counterparty, provide comfort.

Moderate coverage indicators and presence of structural features – The project is expected to achieve the commercial operations date (COD) within two years from the appointed date on September 29, 2022. If the overall project cost remains within the budgeted level, once operational, SRIPL is likely to have moderate debt coverage indicators with a cumulative DSCR of over 1.2 times as per ICRA's estimates. This provides the SPV adequate cushion to withstand adverse movement in the interest on annuity and inflation to a major extent. The credit profile is supported by SCL's undertaking towards cost overrun during the construction phase and any shortfall in O&M expenses. Further, the presence of structural features of the debt, including the presence of escrow, cash flow waterfall mechanism, provision for DSR (to be created out of the first two annuities), provision for creation of MMR and restricted payment clause with a minimum DSCR of 1.15 times provide comfort.

Credit challenges

Execution risk related to under-construction project – The project is in the initial stage of construction, which exposes the SPV to execution risk including risks of delays and cost overruns. However, the risk is mitigated to an extent by the fixed-price (subject to pass-through of PIM component), fixed-time contract executed with SCL. Given SCL's limited track record in road construction activity, the ability of the EPC contractor to complete the project within the stipulated cost and time remains to be seen. APCO, which has a long execution track record, would execute ~15% of the total project, and will provide technical support to SRIPL for the entire project. This mitigates the execution risk to an extent. SCL's ability to commission the project in a timely manner and within the budgeted costs would remain important from the credit perspective.

Project cash flows and returns exposed to inflation risks – The project's cash flows and returns are exposed to inflation risk as O&M receipts, though linked to inflation (70% WPI and 30% CPI), may not be adequate to compensate for the increase in O&M/periodic maintenance expenses.

Undertaking O&M and MM as per concession requirement – Post commissioning, the company will have to undertake O&M of the project stretch as per the concession agreement to avoid any deductions from annuities. Any significant deductions from annuities or increase in routine and MM expenses from the budgeted level could impact its DSCR.

Liquidity position: Adequate

The liquidity position is supported by undrawn sanctioned line of credit, grants receivable from the NHAI and equity infusion from SCL and APCO.

Rating sensitivities

Positive factors – The ratings could be upgraded once the project achieves significant executional progress without any delays or cost overruns, or if there is an improvement in the credit profile of the sponsor.

Negative factors – Negative pressure on the ratings 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 in receipt of grant or equity infusion results in increased funding risks for the project.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for BOT (Hybrid Annuity Model) Roads
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Shalimar Road Infrastructures Private Limited (SRIPL) is an SPV incorporated by Shalimar Corp Ltd (SCL) and APCO Infratech Pvt Ltd (APCO) to undertake the design, build, operate and transfer (DBOT) of 42.8 km road stretch on a hybrid annuity basis under concession by the NHAI. The project entails developing the six lane Jhanki – Sargi section of NH-130 CD Road from 00+000 to 42+800 Km under Raipur – Visakhapatnam Economic Corridor in Chhattisgarh on HAM (package Cg-1) basis. APCO will hold 26% equity stake in the HAM SPV. Further, APCO will also be executing a part of the project (~15%).

Key financial indicators (audited)

The key financial indicators are not applicable as SRIPL 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 (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Nov 09, 2022	-	-	-
1	**Term loan**	Long term	478.00*	0.00	**[ICRA]BBB- (Stable)**	-	-	-
2	**Bank Guarantee**	Long-term/ Short-term	31.18	0.00	**[ICRA]BBB- (Stable)/ [ICRA]A3**	-	-	-
3	**Unallocated**	Long-term/ Short-term	0.82	0.00	**[ICRA]BBB- (Stable)/ [ICRA]A3**	-	-	-

**Rs. 114.34 crore of non-fund based limit (for BG against mobilisation advances) is a sub-limit of the term loan facility*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund-based – Term loan	Simple
Long-term/ Short-term – Fund based – Bank Guarantee	Very Simple
Long-term/ Short-term – Unallocated	Not Applicable

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**	August 2022	NA	September 2038	478.00*	[ICRA]BBB- (Stable)
NA	**Bank Guarantee**	NA	NA	NA	31.18	[ICRA]BBB- (Stable)/ [ICRA] A3
NA	**Unallocated**	NA	NA	NA	0.82	[ICRA]BBB- (Stable)/ [ICRA] A3

Source: Company

**Rs. 114.34 crore of non-fund based limit (for BG against mobilization advances) is a sub-limit of the term loan facility*

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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