April 17, 2023

GV Road Projects Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Term loan facilities	256.2	235.0	[ICRA]A (Stable); reaffirmed
Total	256.2	235.0	

**Instrument details are provided in Annexure I*

Rationale

The rating reaffirmation for GV Road Projects Private Limited (GVR) factors in the operational nature of the project with receipt of four semi-annual annuities in a timely manner, stable revenue stream in the form of annuity over the term of the concession from a strong counterparty, National Highways Authority of India (NHAI, rated [ICRA]AAA/Stable) and comfortable debt coverage metrics for the debt duration. The rating considers the satisfactory track record of the operations and maintenance (O&M) contractor, BVSR Constructions Private Limited (BVSR, rated [ICRA]BBB+(Stable), in the road sector. The rating positively factors in the structural features of debt including presence of escrow, cash flow waterfall mechanism and funded debt service reserve equivalent to six months of debt servicing obligations.

The rating, however, remains constrained by the exposure of GVR's cash flows to interest rate risk, given the floating nature of interest rates for the project loan. Moreover, any significant reduction in the Reserve Bank of India's (RBI) Bank Rate could adversely impact its coverage indicators as annuity payments are linked to the Bank Rate. The company's ability to ensure healthy lane availability to avoid any deductions from the annuity amount would remain important from the credit perspective. The major maintenance (MM) reserves are lower than ICRA's base case assumptions and GVR's ability to complete the MM within the budgeted costs remains a key rating monitorable.

The Stable outlook on the long-term rating reflects ICRA's opinion that GVR will continue to benefit from timely annuity receipt from a strong counterparty.

Key rating drivers and their description

Credit strengths

Timely receipt of four semi annuities without any material deductions – GVR has received four semi annuities without any major deductions till March 2023. There is a 30-day gap between the scheduled annuity receipt date and the debt servicing date, along with availability of a debt servicing reserve account (DSRA) equivalent to six months principal and interest, which provides cushion in case of any delays in receipt of annuities.

Annuity nature of the project eliminates market risks under hybrid annuity model (HAM) – The project will have a stable annuity revenue stream over the term of the concession from the project owner and annuity provider, the NHAI, which is the key Central Government entity responsible for development and maintenance of India's national highway programme.

Healthy debt coverage metrics and structural features – The rating derives comfort from healthy projected debt service coverage ratios for the debt duration. The rating also considers the presence of structural features such as DSRA equivalent to six months principal and interest in the form of fixed deposits, escrow mechanism and restricted payment covenant with lock-up debt servicing coverage ratio (DSCR) of 1.25 times.

Credit challenges

Project returns exposed to changes in bank and interest rate risk – The company's cash flows are exposed to interest rate risk, given the floating nature of interest rates for the project loan. Further, any decline in the Bank Rate would adversely impact the projected coverage metrics and IRRs, as ~40-45% of the total annuity inflows for HAM projects are contributed by interest on annuities.

Lane availability to be ensured for annuity payments – GVR's source of income is the annuity, interest on outstanding annuities and annual O&M payments from the NHAI. It entered into a fixed-price O&M contract worth Rs. 10.5 crore in FY2023 for taking up routine and major maintenance activities with its sponsor, BVSR. BVSR has an established track record of O&M in the road construction for more than 15 years. Hence, any material deterioration in BVSR's credit profile impacting GVR's ability to undertake maintenance activities will remain a monitorable.

Further, the company created MMR of Rs. 2.95 crore, which is in line with lender base case estimates. As per the lender's base case estimates, GVR expects to complete the first MM cycle for Rs. 17 crore. However, the MM reserves are lower than ICRA's base case assumptions and its ability to complete the MM within the budgeted costs remains a key rating monitorable.

Liquidity position: Adequate

The company's liquidity position is adequate. The cash flows from operations are expected to be sufficient for the debt repayment obligations of Rs. 22.2 crore in FY2024. There is a gap of around one month between the scheduled annuity payment date and the debt repayment date, which provides an additional cushion in case of a delay in receipt of the annuity. Also, it created a DSRA equivalent to six months of debt obligations.

Rating sensitivities

Positive factors – The rating could be upgraded if the company receives annuities and O&M payments without any material deductions in a timely manner, along with completion of the first MM exercise within the budgeted costs.

Negative factors – Major deductions or delays in receipt of semi-annual annuities or O&M payments, or an increase in the O&M expenses or any additional debt availed by the SPV or weakening of debt structure, resulting in a deterioration of the debt coverage indicators, may trigger a rating downgrade.

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	The rating is based on the company's standalone financial profile

About the company

GV Road Projects Private Limited (GVRPPL) is a subsidiary of BVSR Constructions Private Limited (sponsor). GVRPPL is an SPV formed to undertake the rehabilitation and upgradation of Giddalur (km-212.983) to Vinukonda (km-322.80) in Andhra Pradesh (total design length of 112.797 km) to two-lane with paved shoulder under HAM basis. The company signed a 17-year concession agreement (including construction period of two years) on May 07, 2018, with the NHAI. The project received provisional COD in December 2020 and final COD on November 07, 2022 for the entire stretch.

Key financial indicators (audited)

GVR (Standalone)	FY2021	FY2022
	Audited	Audited
Operating income (Rs. crore)	15.07	65.87
PAT (Rs. crore)	1.40	0.5
OPBDIT/OI (%)	53.0%	69.6%
PAT/OI (%)	9.3%	0.8%
Total outside liabilities/Tangible net worth (times)	78.7	87.0
Total debt/OPBDIT (times)	37.3	7.7
Interest coverage (times)	1.31	1.7

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2023 (Rs. crore)	Date & Rating	Date & Rating in FY2023	Date & Rating in FY2022	Date & Rating in FY2021
					April 17, 2023	May 13, 2022	-	Feb 5, 2021
1	**Term loan**	Long-term	235.0	235.0	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	-	**[ICRA]A (Stable)**

Complexity level of the rated instruments

Instrument	Complexity Indicator
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	**Term loan**	February 2021#	7.25%	Feb 2034	235.0	[ICRA]A (Stable)

Source: Company
#Refinanced from Canara Bank

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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