

September 25, 2023

Welspun Delhi Meerut Expressway Private Limited: Provisional rating finalised

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Term loan	329.40	329.40	[ICRA]AA+ (Stable); Provisional rating finalised
Total	329.40	329.40	

*Instrument details are provided in Annexure-I

Rationale

In March 2023, ICRA had assigned a Provisional [ICRA]AA+(Stable) rating to the term loan facilities of Welspun Delhi Meerut Expressway Private Limited (WDMEPL). The company has shared the executed facility agreement and the inter-company agreement, which are in line with the initial rating conditions. Hence, the provisional rating stands confirmed as final. ICRA notes that while a new escrow agreement remains to be executed, an interim arrangement has been entered between WDMEPL, the lender and the lender's agent, as per which the lender's agent has adequate control over the transactions from the old escrow account.

The assigned rating continues to derive comfort from the operational nature of the project with a track record of receipt of ten semi-annual annuities without any material deductions and adequate debt coverage metrics. The rating draws strength from the annuity nature of the project, with 60% of the final completion cost to be paid out as semi-annual annuities, along with interest on the residual annuities payable (at bank rate + 3%). Further, WDMEPL will receive inflation-adjusted operations and maintenance (O&M) cost bid over the 15-year operations period from the project owner, National Highways Authority of India [NHAI, rated [ICRA]AAA(Stable)], which is a strong counterparty. ICRA notes that a delay of around 15 days has been witnessed in the 10th semi-annual annuity owing to procedural reasons, given the change in sponsor. However, going forward, ICRA does not expect any material delay in the receipt of the annuities. Moreover, the availability of a buffer of over 60 days between the annuity due date and the scheduled debt repayment date, along with a funded debt servicing reserve account (DSRA) provide comfort. While the projected debt coverage indicators for the term loan is adequate, with a cumulative debt servicing coverage ratio (DSCR) of around 1.15 times during the debt tenure, the repo rate linked interest rate for the proposed loan mitigates the interest rate risk to a large extent due to the natural hedge with interest on annuities to be received from the NHAI (linked to RBI's bank rate). The debt structure requires creation and maintenance of various reserves such as debt service reserve (DSR) equivalent to six months of debt servicing obligations, and major maintenance reserve (MMR), which along with the presence of other structural features of the debt, including escrow, cash flow waterfall mechanism, and restricted payment clause with a minimum DSCR of 1.1 times, offer comfort. ICRA notes that the special purpose vehicle (SPV) is a party to the cash flow pooling/surplus sharing arrangement with other five¹ SPVs of the Actis Long Life Infrastructure Fund (ALLIF), wherein the surplus cash flows at each SPVs will be made available to the other SPVs for meeting any shortfall in debt servicing, DSR and MMR replenishment and O&M shortfall.

Notwithstanding the above, WDMEPL'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. Any substantial deductions from the annuities or increase in routine and major maintenance (MM) from the budgeted level could impact its coverage metrics. Further, any significant upward revision to the O&M and MM rates impacting

¹ Welspun Infracore Private Limited (WIPL), Chikhali -Tarsod Highways Private Limited (CTHPL), MBL (CGRG) Road Limited (CGRG), MBL (GSY) Road Limited (GSY) and Welspun Infra Road Private Limited (WIRPL)

WDMEPL's cash flows will remain a key monitorable. The debt structure also has credit-rating linked debt acceleration clause, which if materialises, could expose the company to refinancing risk.

The Stable outlook on the rating reflects ICRA's opinion that WDMEPL will continue to benefit from the operational status of the project, strong counterparty, adequate debt coverage metrics and presence of structural features.

Key rating drivers and their description

Credit strengths

Operational nature of project – WDMEPL achieved the provisional completion on June 28, 2018, against the scheduled CoD of May 26, 2019. It completed the balance work and the final CoD was declared on September 26, 2018. The project has thus been operational for five years.

Annuities nature of project with strong counterparty – The annuity nature of the project eliminates the traffic risk for hybrid annuity model (HAM) road projects. It will receive 30 semi-annual annuities, along with interest on the residual annuities payable (at bank rate + 3%) and inflation-adjusted O&M cost bid over the 15-year operations period from the project owner, the NHAI. ICRA notes that a delay of around 15 days has been witnessed in the 10th semi-annual annuity owing to procedural reasons, given the change in sponsor. However, going forward, ICRA does not expect any material delay in the receipt of the annuities. There is a gap of over 60 days between the annuity due date and the scheduled debt repayment date, which along with the funded DSRA, mitigates the delay risks in annuity payments to an extent. The increased certainty of cash flows (except for the bank rate, and inflation) from a strong counterparty (NHAI) is a key strength for the company.

Adequate coverage indicators with repo rate linked interest on term debt and presence of structural features – WDMEPL is expected to maintain adequate debt coverage indicators with a cumulative DSCR of around 1.15 times during the debt tenure. This is adequate as the repo rate linked interest rate for the proposed loan mitigates the interest rate risk to a large extent due to the natural hedge with interest on annuities to be received from the NHAI (linked to RBI's bank rate). The debt structure mandates creation of various reserves such as DSR equivalent to six months of debt servicing obligations and MMR. The company's credit support is provided by other structural features of the debt, including escrow, cash flow waterfall mechanism, and restricted payment clause with a minimum DSCR of 1.1 times. Further, the SPV is a party to the cash flow pooling/surplus sharing arrangement with other five SPVs of the ALLIF, wherein the surplus cash flows at each SPVs will be made available to the other SPVs for meeting any shortfall in debt servicing.

Credit challenges

O&M as per concession requirement and risk of delays or deductions in annuity – WDMEPL's sources of income include annuity, interest on outstanding annuities and the annual O&M payments from the NHAI. Any significant deductions from the annuities or increase in routine and MM from the budgeted level could impact its coverage metrics. While WDMEPL will receive O&M payments from NHAI along with annuities, and the same will increase as per inflation (70% WPI and 30% CPI), it may not be adequate to compensate for the actual increase in O&M/periodic maintenance expenses. Further, any considerable upward revision to the O&M and MM rates impacting WDMEPL's cash flows will remain a key monitorable. The company expects the MM cost to be lower than ICRA's benchmarks due to factors like timely O&M and low commercial traffic density on the project stretch. Nevertheless, ICRA in its base case scenario has built-in additional cushion vis-à-vis the company's assumptions. The timely receipt of annuity payments without any material deduction is important from the credit perspective. However, the buffer between the annuity due date and the scheduled debt repayment date, along with the DSR, mitigates the risk of any short-term cash flow mismatches.

Liquidity position: Adequate

The cash flow from operations are expected to be sufficient to meet the debt servicing obligations with a cumulative DSCR of around 1.15 times during the tenure of the rated instrument. The company's liquidity position is supported by the availability of funded DSRA equivalent to six months of debt servicing obligations.

Rating sensitivities

Positive factors – ICRA could upgrade WDMEPL's rating if forthcoming annuities are received in a timely manner without any deductions, along with improvement in the cumulative DSCR to above 1.20 times on a sustained basis.

Negative factors – Negative 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, or if there is any additional debt availed by the SPV that impacts its coverage indicators. The rating could come under pressure if there is any non-adherence to the debt structure.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Roads-Hybrid Annuity
Parent/Group Support	Not applicable. ICRA notes that WDMEPL has a cash flow pooling mechanism with five SPVs (Chikhali -Tarsod Highways Private Limited, MBL (CGRG) Road Limited, MBL (GSY) Road Limited, Welspun Road Infra Private Limited, and Welspun Infrafacility Private Limited) of the ALLIF Group as per which, the surplus cash flows at each SPV will be made available to the other.
Consolidation/Standalone	The rating is based on the standalone financial profile of the company.

About the company

Welspun Delhi Meerut Expressway Private Limited was incorporated in February 2016 as a 100% subsidiary/SPV of Welspun Enterprises Limited. In December 2022, the entire stake in the SPV was acquired by Actis Highway Infra Limited. WDMEPL was formed to undertake development, operation, and maintenance of the existing NH 24 stretch, from km 0.000 to km 8.360 up to Delhi – UP Border section of NH-24 in Delhi, by six-laning of expressway and four-laning either side of the expressway thereof on design, build, operate and transfer (hybrid annuity) basis.

The concession agreement between the NHAI and WDMEPL was signed on March 4, 2016. The provisional CoD of the project was achieved in June 2018 and CoD on September 26, 2018, well in advance of the SCoD of May 2019. The SPV received bonus from NHAI for early completion and a part of the bonus was shared with the engineering, procurement and construction (EPC) contractor. The total cost of the project (Rs. 836.4 crore) was funded by the equity of Rs. 105.5 crore, debt of Rs. 376.0 crore from banks, and a grant of Rs. 354.9 crore from the NHAI. WDMEPL is contractually entitled to receive semi-annual payments in July and December/January every year until the end of the concession period viz., FY2034. These receipts typically include annuity payment, interest on the annuity, and O&M payment. The O&M payments to be received from NHAI are indexed as per a pre-determined formula to the WPI/CPI.

Key financial indicators (Audited)

WDMEPL Standalone	FY2022	FY2023
Operating income (OI)	7.4	6.7
PAT	-0.7	0.0
OPBDIT/OI	-7.3%	-23.9%
PAT/OI	-9.1%	-0.5%
Total outside liabilities/Tangible net worth (times)	13.9	9.0
Total debt/OPBDIT (times)	NM	NM
Interest coverage (times)	NM	NM

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; NM: Not meaningful; WDMEPL follows Ind AS and key financial ratios are not representative of actual cash flows

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024 Sept 25, 2023	Date & rating in FY2023 Mar 22, 2023	Date & rating in FY2022 -	Date & rating in FY2021 -
1 Fund-based – Term loan	Long term	329.40	316.2	[ICRA]AA+ (Stable)	Provisional [ICRA]AA+ (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	Long-term – Fund-based – Term loan	March 22, 2023	-	FY2033	329.40	[ICRA]AA+ (Stable)

Source: Company, ICRA Research

[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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