September 25, 2023

Welspun Infrafacility 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	1254.40	1254.40	[ICRA]AA- (Stable); Provisional rating finalised
Total	**1254.40**	**1254.40**	

**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 Infrafacility Private Limited (WIPL). 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 the company, 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 rating factors in the project's favourable location being a part of the North-South corridor and operational nature of the road asset under the build, operate and transfer (BOT) concession from the National Highways Authority of India (NHAI). The project highway connects important cities of Delhi, Sonipat and Panipat and facilitates connectivity to the peripheral expressway (largest ring road outside Delhi NCR) ensuring decongestion in the NCR from the long-haul traffic. Further, the rating takes comfort from WIPL's projected debt service cover with a cumulative debt servicing coverage ratio (DSCR) of around 1.4 times as per ICRA's base case estimates, along with the flexibility arising out of two-year tail period. The presence of structural features – escrow and cash flow waterfall mechanism, and creation of reserves namely debt service reserve (DSR) equivalent to six months of debt obligation, and creation of a major maintenance reserve account (MMRA) also provides credit support. The rating derives comfort from the debt structure, under which a surplus sharing agreement has been entered into between WIPL and five[1] other special purpose vehicles (SPVs) under the Actis Long Life Infrastructure Fund (ALLIF), wherein the surplus cash flows available at each of the SPVs will be made available to the other SPVs for meeting any shortfall in debt servicing, DSR and MMR replenishment and operations and maintenance (O&M) shortfall.

The rating, however, remains constrained by the limited operational track record and alternative route/mode risks. Delhi Amritsar Katra Expressway (DAKE) and the proposed Delhi-Panipat Regional Rapid Transit System (DPRRTS) are likely to result in moderation in traffic on the company's project stretch. While ICRA, in its base case assumptions, has factored in the impact of DAKE and DPRRTS on the traffic, any higher-than-anticipated shift in traffic could affect the coverage metrics and will be a key monitorable. WIPL's cash flows are also exposed to interest rate risk, considering the floating interest rates of the project loan. In absence of a pre-defined major maintenance (MM) schedule in the Concession Agreement, periodic maintenance is required on a need basis, which may result in a volatility in operating expenses/cash outflows. Undertaking routine and periodic maintenance within the budgeted costs would remain important and any significant upward revision to the O&M and MM rates affecting WIPL's cash flows will remain a key monitorable. In this regard, ICRA has taken comfort from the healthy projected cash flow while keeping cushion in the cost estimates for undertaking the O&M and MM expenditure. The debt structure also has credit-rating linked debt acceleration clause, which if materialises, could expose the company to refinancing risk.

[1] *Welspun Delhi Meerut Expressway Private Limited (WDMEPL), Chikhali -Tarsod Highways Private Limited (CTHPL), MBL (CGRG) Road Limited (CGRG), MBL (GSY) Road Limited (GSY) and Welspun Infra Road Private Limited (WIRPL)*

At present, Welspun Enterprises Limited (WEL) holds 51% stake in WIPL, while the balance 49% is held by Actis Highway Infra Limited (AHIL), a wholly-owned subsidiary of ALLIF. AHIL has entered into a definitive agreement with WEL to acquire the balance stake (taking its stake to 100%), subject to receipt of necessary approvals from the NHAI in compliance with the concession agreement and achievement of final commercial operations date (COD). As of July 2023, the pending construction cost was around Rs. 70 crore (with financial progress of 96.47%), which shall be funded by a grant of ~Rs. 62 crore and pending debt drawdown of ~Rs. 9 crore. The project is expected to achieve COD by November 2023. ICRA expects the cash inflows by way of toll collections to be around Rs. 330 - 350 crore in FY2024 and Rs. 350 - 370 crore in FY2025.

The Stable outlook on the rating reflects ICRA's opinion that WIPL will continue to benefit from the importance of the project stretch, healthy cash flows and coverage metrics and support from the surplus cash flow pooling mechanism with other five SPVs of ALLIF.

Key rating drivers and their description

Credit strengths

Operational asset with favourable location – The project achieved provisional completion - II (PCOD) w.e.f. from March 2023 for 66.91 Km (~97%) out of the total 68.96 Km and has been tolling since April 2022. The balance work is in the advanced stage and the company expects the final/full COD to be received in the upcoming months (November/December 2023). This is expected to further streamline the traffic movement. The significance of the project emerges from connecting important cities of Delhi, Sonipat and Panipat and feeding the stretches towards Chandigarh, being a part of North-South corridor and healthy increase in toll collections since commencement of tolling from April 2022. Its importance is further enhanced by facilitating the connectivity to the peripheral expressway, and thereby decongesting the movement within Delhi NCR.

Comfortable coverage indicators and presence of tail period – The rating factors in the healthy toll collections since the commencement of tolling in April 2022. WIPL is expected to have comfortable debt service cover with a cumulative DSCR of ~1.4 times as per ICRA's base case estimates and the flexibility arising out of the two-year tail period.

Presence of structural features and cash flow pooling mechanism – The presence of structural features such as creation of DSR equivalent to six months, well-defined escrow and cash flow waterfall mechanism, and creation of MMR from the project's cash flows provide credit support. Further, the rating derives comfort from the debt structure under which a surplus sharing agreement has been entered into with other five road SPVs of the ALLIF as per which, the surplus cash flows available at each of the SPVs will be made available to the other SPVs for meeting any shortfall in debt servicing/DSR replenishment.

Credit challenges

Limited toll collection track record and risk of traffic diversion to alternative routes/mode of transportation – Despite its importance, the project stretch remains exposed to risks of development of alternative routes/modes of transportation. Delhi Amritsar Katra Expressway (DAKE) and the proposed Delhi-Panipat Regional Rapid Transit System (DPRRTS) are likely to result in moderation in traffic. While ICRA, in its base case assumptions, has factored in impact of DAKE and DPRRTS on the traffic, any higher-than-anticipated shift in traffic could affect coverage metrics and will be a key monitorable.

Ensuring routine and periodic maintenance expenses within budgeted levels – In absence of a pre-defined major maintenance schedule, periodic maintenance is required on need basis, which may result in a volatility in operating expenses. Undertaking routine and periodic maintenance within the budgeted costs would remain important and any significant upward revision to the O&M and MM rates at the time of change in O&M contractor impacting WIPL's cash flows will remain a key monitorable. In this regard, ICRA has taken comfort from the healthy projected cash flow, while keeping cushion in the cost estimates for undertaking the O&M and MM expenditure.

Interest rate risk – WIPL's cash flows are exposed to interest rate risk, considering the floating interest rates of the project loan.

Liquidity position: Adequate

The liquidity position is adequate. As per the debt structure, the company had created a debt service reserve (equivalent to six months of principal + interest obligations) of ~Rs. 80.3 crore as on August 31, 2023. The annual principal debt repayment can be comfortably serviced from the operational cash flows.

Rating sensitivities

Positive factors – The rating may be upgraded if there is a significant and sustained improvement in traffic, while keeping the O&M cost within the budgeted levels, leading to substantial improvement in debt coverage indicators. Further, improvement in the credit profile of the combined pool of the six road assets (assets with cash flow pooling) could also support a rating upgrade.

Negative factors – The rating may be downgraded if there is any material decline in toll collections resulting in pressure on the debt coverage metrics. Downgrade pressure on the rating may also emerge if the cumulative DSCR falls below 1.3 times. Further, deterioration in the credit profile of the combined pool of the six road assets, or any non-adherence to the debt structure, could put pressure on the rating.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for BOT (Toll) Roads
Parent/Group support	Group: Considering the rated entity is a part of a pool of six SPVs (including WIPL) with pooling mechanism of surplus cash flows at each SPVs to meet the deficit in any of the other SPVs, ICRA has arrived at a consolidated analysis of these six SPVs and factored in the likelihood of timely and adequate financial support to WIPL to meet its obligations.
Consolidation/Standalone	Standalone

About the company

Welspun Infrafacility Pvt Ltd, an SPV incorporated in September 2019, was established to implement the project for the design, construction, development, operation, maintenance, management and toll collection of the eight laning of Mukarba Chowk Panipat Section of NH-1 (New NH-44) from 15.500 Km to 86.000 Km in Haryana under NHDP Phase IV through Public Private Partnership (PPP) on Design, Build, Finance, Operate and Transfer (DBFOT) Toll basis. The SPV was promoted by Welspun Enterprises Limited. Actis Highways Infra Limited had entered into an agreement to purchase 100% stake in the SPV from WEL; 49% had been acquired by January 2023 and the balance is to be acquired post achievement of COD subject to NHAI approval.

The project was initially awarded to Essel Infraprojects Limited (EIL), which had incorporated an SPV - Mukarba Chowk - Panipat Toll Roads Limited (MCPTRL), for implementing the same. The concession was for a period of 17 years from the Appointed date, including a construction period of 2.5 years. The Concession Agreement to this effect was executed on August 28, 2015. However, EIL/MCPTRL on account of its financial difficulties, was unable to complete the project. Therefore, under the harmonious substitution of the sponsor guidelines of the NHAI, the Substitution Agreement was executed on June 8, 2020, and the project was awarded to Welspun Enterprises Ltd, through its SPV, Welspun Infrafacility Pvt Ltd.

Key financial indicators (Audited)

WIPL Standalone	FY2022	FY2023
Operating income (OI)	414.6	788.9
PAT	1.2	-7.0
OPBDIT/OI	0.0%	28.3%
PAT/OI	0.3%	-0.9%
Total outside liabilities/Tangible net worth (times)	4.4	10.3
Total debt/OPBDIT (times)	-	8.3
Interest coverage (times)	-	2.2

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; WIPL 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	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 in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Sept 25, 2023	Mar 22, 2023	-	-
1	**Fund-based – Term loan**	Long term	1254.40	1203.3	**[ICRA]AA- (Stable)**	**Provisional [ICRA]AA- (Stable)**	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – 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	-	FY2032	1254.40	[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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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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