

November 14, 2024

RCCL Expressway Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term loan	227.54	227.54	[ICRA]BBB+ (Stable); Reaffirmed
Total	227.54	227.54	

*Instrument details are provided in Annexure I

Rationale

The rating reaffirmation for RCCL Expressway Private Limited (REPL) favourably factors in the timely receipt of seven semi-annuity payments without any material deductions and operational nature of the annuity road project, which provides stable revenue visibility over the term of the concession from the project owner and annuity provider, Tamil Nadu Road Sector Project II (TNRSP-II)¹. The rating considers the strong debt coverage metrics with a cumulative debt service coverage ratio (DSCR) of above 1.2 times during the debt tenure. The rating positively considers the presence of debt service reserve (DSR) equivalent to six months' interest and one principal obligation and creation of major maintenance (MM) reserve from the project's cash flows as per the lender's base case model. ICRA takes note of the established track record of REPL's sponsor company, Ramalingam Construction Company Private Limited (RCCL), in managing road assets in Tamil Nadu and Karnataka and appointment of RCCL as the operations and maintenance (O&M) contractor for taking up maintenance activities.

The rating, however, remains constrained by the absence of cushion between the annuity date and the principal repayment date. Therefore, REPL's ability to maintain surplus liquidity to meet the debt obligations in case of any delay in annuity receipts remains crucial from the credit perspective. ICRA notes that the company is in the advanced stage of refinancing the debt with favourable terms including creation of adequate cushion between the annuity date and debt repayment date. The transaction is likely to be completed in Q4 FY2025 and remains a key rating monitorable. The rating is also constrained by the counterparty credit risk as it is a state annuity project, with limited payment track record from the project authority. ICRA also notes the single asset nature of the project operations. The company must ensure satisfactory upkeep of the carriageway providing 100% lane availability and satisfactory maintenance of the project stretch as per the Concession Agreement to avoid any deductions from annuities. Therefore, any significant deductions from the annuities or rise in O&M and MM expenses from the budgeted level could impact its coverage metrics and is a key rating monitorable going forward. However, given that REPL has entered into annual fixed-price O&M contract with its sponsor RCCL, it mitigates the O&M cost overrun risk to an extent. The rating is also constrained by the exposure of the company's cash flows to interest rate risk, considering the floating nature of interest rates for the project loan.

The Stable outlook on the long-term rating reflects the expectation of timely receipt of annuities without any material deductions, supporting the project's debt coverage metrics.

¹ TNRSP II is an autonomous body under the Ministry of Highways, Tamil Nadu, which is implementing 1153.9 km of road projects across Tamil Nadu through loan from the World Bank

Key rating drivers and their description

Credit strengths

Annuity nature of project with track record of seven semi-annuities in a timely manner – The project achieved completion with effect from August 28, 2020, and is expected to have a stable annuity revenue stream over the term of the concession from the project owner and annuity provider, TNRSP-II. As of now, the company has received seven annuities in a timely manner without any material deductions.

Comfortable debt coverage metrics – The project has comfortable debt coverage metrics, reflected in cumulative DSCR of more than 1.20 times for the project debt tenure. Further, structural features of the debt including the presence of escrow, cash flow waterfall mechanism, DSRA equivalent to six months of debt obligations and MM reserve for periodic maintenance and restricted payment clause with a minimum DSCR of 1.15 times, provides further support to the credit profile. The company maintained a DSRA of Rs. 38 crore and an MM reserve of Rs. 48.65 crore as on October 31, 2024 in the form of fixed deposits in line with the lender's base case financial model.

Established track record of sponsor in road construction and maintenance – RCCL has been appointed as the O&M contractor to take up the routine maintenance activities, which has more than three decades of experience in the construction business. Further, RCCL has a demonstrated track record of managing road assets in Tamil Nadu and Karnataka.

Credit challenges

No cushion between annuity and principal due dates – The annuity due dates are May 21 and November 21 of each year. Further, the principal repayment is to be made on the annuity due dates, exposing the company's debt servicing to timely receipt of the annuities. However, REPL has maintained surplus liquidity to meet the debt obligations in case of any delay of annuity receipts mitigating the risk to an extent. ICRA notes that the company is in the advanced stage of refinancing the debt, which is expected to provide adequate cushion between the annuity date and debt repayment date. The transaction is likely to be completed in Q4 FY2025 and remains a key rating monitorable.

Exposed to counterparty risk – The company is exposed to counterparty credit risk, given that it is a state annuity project, which may result in delays in receipt of semi-annuity payments. However, the risk is mitigated to an extent by the funding earmarked as a part of the state budget every year.

Lane availability to be ensured for annuity payments; project returns exposed to interest rate risk – The company has a single source of income, which is the annuity payments from the authority. Therefore, it must ensure satisfactory upkeep of the carriageway providing 100% lane availability and satisfactory maintenance of the project stretch as per the Concession Agreement to avoid any deductions from annuities. Any significant deductions from the annuities or rise in O&M and MM expenses from the budgeted level could impact its coverage metrics and is a key rating monitorable going forward. However, REPL has an annual fixed-price O&M contract with its sponsor, RCCL, mitigating the O&M cost overrun risk to an extent. The rating is also constrained by the exposure of the company's cash flows to interest rate risk, given the floating nature of interest rates for the project loan.

Liquidity position: Adequate

REPL's liquidity position is adequate with maintenance of six months' DSRA and free cash balances of ~Rs. 75.8 crore as on October 31, 2024. The repayment obligations in FY2025 and FY2026 can be comfortably met through the estimated cash flow from operations. As on October 31, 2024, the company maintained Rs. 38 crore in the form of DSRA and Rs. 48.5 crore of major maintenance reserve.

Rating sensitivities

Positive factors – ICRA could upgrade REPL’s rating on a sustained track record of receipt of semi-annuity payments in a timely manner and without any deductions, along with improvement in the debt structure and/or credit profile of the sponsor.

Negative factors – Pressure could arise if there are any significant delays or deductions in annuity payments, or if there is a significant increase in O&M costs, leading to additional indebtedness and material reduction of coverage metrics, and/or if there is a deterioration in the sponsor’s credit profile. Specific credit metric for a rating downgrade would be cumulative DSCR declining to less than 1.10 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Roads - Annuity
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

RCCL Expressway Private Limited (REPL) is a special purpose vehicle (SPV) incorporated on March 19, 2019, for development and construction of SH-37 from 37+400 km to 108+400 km (Oddanchatram to Avinashipalayam section), covering a total length of 70.20 km, in Tamil Nadu under TNRS-PII on Design, Build, Finance, Operate, Maintain and Transfer (DBFOMT), on a modified annuity basis. The SPV is formed between RCCL (having 74% equity) and KMC Constructions Limited (having an equity of 26%). The project received appointed date on November 22, 2018, with a construction period of two years and operation period of eight years. The project achieved a completion certificate with effective from August 28, 2020.

Key financial indicators (audited)

	FY2023	FY2024
Operating income (Rs. crore)	101.4	91.6
PAT (Rs. crore)	21.4	24.3
OPBDIT/OI (%)	50.3%	54.4%
PAT/OI (%)	21.1%	26.5%
Total outside liabilities/Tangible net worth (times)	1.5	1.1
Total debt/OPBDIT (times)	5.7	4.5
Interest coverage (times)	2.0	2.3

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes, and amortisation;

Note: RCCL Expressway Private Limited 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 (FY2025)			Chronology of Rating History for the Past 3 Years				
	Type	Amount Rated (Rs. crore)	Date & Rating in	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022		
			November 14, 2024	October 17, 2023	August 12, 2022	June 17, 2021	May 17, 2021	
1 Term loan	Long-term	227.54	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Stable)

Complexity level of the rated instrument

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 / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	Sep - 2018	NA	Mar - 2028	227.54	[ICRA]BBB+ (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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