

Gorakhpur Infrastructure Company Private Limited

April 01, 2019

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based - Term Loan	383.37	350.00	[ICRA]AA (Stable); Reaffirmed

*Instrument details are provided in Annexure-1

Rationale

The rating continues to take into account the annuity based nature of the project providing a stable revenue stream eliminating traffic risk and the strong profile of GICPL's counter-party and annuity provider viz. National Highway Authority of India (NHAI rated [ICRA]AAA(Stable)), a key central government entity entrusted with the responsibility of development and maintenance of India's national highway programme. The rating factors in the strong profile of the ultimate project sponsor, Brookfield Asset Management (Brookfield), having an established track record of asset management in the infrastructure space across the globe and the operational nature of the project with timely receipt of annuities since Brookfield took over the project. The rating further draws comfort from the presence of structural features such as creation of major maintenance reserve (MMR) and debt servicing reserve account (DSRA) equivalent to six months of debt servicing obligations, along with a lock-up debt service coverage ratio (DSCR) of 1.1 times for making restrictive payments including dividends, return of equity and other payments to the holding company. During the current year, GICPL has replaced its cash based DSRA with a bank guarantee of Rs. 33.81 crore from its sponsor.

ICRA has taken note of the on-going dispute with NHAI with regards to the timelines of the applicability of the stage overlay clause for pavement composition of main carriageway. While the clause requires overlays to be done in the 10th and 15th year, GICPL is contending that as project received provisional COD in March 2012, the first overlay requirement should not arise before 2022. ICRA was given to understand that NHAI has agreed to defer the overlay obligation to 2022, however, formal communication is awaited. Although the overlay requirement would entail significant additional expenditure to be incurred by GICPL, ICRA draws comfort from the presence of sponsor undertaking for infusing funds in case of cost over runs vis-à-vis the budgeted cost for periodic and routine maintenance activities.

The rating, however, will remain sensitive to GICPL's ability to ensure satisfactory maintenance of the road, in terms of regular as well as periodic maintenance, both of which are critical in order to minimize lane closures and consequently, annuity deductions. The ability to complete the next major maintenance due in FY2022 and FY2027, within stipulated timelines and budgeted cost remains critical. The profitability and cash flows of the project remains exposed to interest rate risk owing to the floating nature of interest rate.

Outlook: Stable

ICRA believes GICPL will continue to benefit from the timely receipt of annuities and strong profile of GICPL's counter-party and annuity provider – NHAI. The outlook may be revised to 'Negative' if there is any deterioration in the credit profile of the annuity provider, significant delay/deduction in annuity payments on account of poor maintenance of the project stretch or if the company fails to undertake the major maintenance within the budgeted costs and stipulated timelines.

Key rating drivers

Credit strengths

Established track record of annuity receipts: GICPL is contractually entitled to receive semi-annual annuities of Rs.48.60 crore in April and October each year till the end of concession period. Till date, GICPL has received 13 semi-annual annuities with certain delays on account of delay in achieving provisional commercial operations date by the previous owner. ICRA takes cognizance of the fact that the significant delays in receipt of annuities were observed under the previous ownership; post acquisition by Brookfield, the annuities have been received with minimal delays. ICRA takes note of the deductions made by NHAI from 13th annuity as penalty for non-maintenance of slope and fencing work. Further, annuity nature of the project eliminates traffic risk.

Strong profile of the annuity provider and sponsor: GICPL's counter-party and annuity provider, NHAI (rated [ICRA]AAA(Stable)), is a key central government entity entrusted with the responsibility of development and maintenance of India's national highway programme. The rating also draws comfort from the strong profile of the ultimate sponsor, Brookfield Asset Management, having an established track record of asset management in the infrastructure space across the globe. Further, the sponsor has given undertaking to infuse funds to meet periodic and routine maintenance expenditure in excess of amounts provided for in the rupee term loan agreement.

Comfortable debt coverage indicators: The projected debt coverage indicators are robust.

Presence of DSRA and creation of major maintenance reserve: The sanction terms mandate GICPL to maintain DSRA equivalent to six months of debt servicing obligation and build-up a major maintenance reserve.

Credit weaknesses

Lane availability to be ensured to earn annuity: Poor maintenance of the road could result in lane closures leading to potential deductions from annuity by NHAI.

Stage overlay obligation: As per Independent Engineer's current estimates, the stage overlay obligation would entail a cost of Rs. 68.73 crore. However, ICRA draws comfort from the presence of sponsor undertaking to support any cost over-run arising out of the stage overlay obligation.

Ensuring regular and periodic maintenance expenditure within budgeted levels: Ability of the company to undertake routine and periodic maintenance expenditure within budgeted costs remains important.

Exposed to interest rate risk: The projects cash flows and profitability remains exposed to interest rate risk given the floating nature of the interest rate.

Liquidity Position:

The company has cash balance of Rs. 55.4 crore including major maintenance reserve of Rs. 10.8 crore as on December 31, 2018. The cash flow cover continues to remain robust as the annuity receipts of the company are expected to be sufficient to meet the operational expenses and its external debt servicing obligation. Overall, GICPL's liquidity position remains comfortable.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Rating Methodology for BOT (Annuity) Roads
Parent/Group Support	Parent/Group Company: BIF India Holdings Pte Limited The rating factors in the likelihood of GICPL's parent extending financial support out of its need to protect its reputation from the consequences of a group entity's distress.
Consolidation/Standalone	Standalone

About the company:

Gorakhpur Infrastructure Company Private Limited (GICPL) is a Special Purpose Vehicle (SPV) incorporated on July 17, 2006 by Gammon Infrastructure Projects Limited for design, construction, development, finance, operation and maintenance of a 32.27 km long Gorakhpur Bypass from 251.7 km to 279.8 km on National Highway number 28 in the state of Uttar Pradesh (UP) on Built operate transfer (BOT) Annuity basis. The stake of GIPL in GICPL was completely divested on February 29, 2016 to BIF India Holdings Pte Ltd., an investment company of Brookfield Asset Management. The project was awarded by National Highways Authority of India (NHAI) based on competitive bidding on October 6, 2006, with a concession period of 20 years, commencing from April 4, 2007 to April 4, 2027, including the construction period. The project achieved provisional commercial operations date (PCOD) on March 31, 2012, with a delay of almost two and a half years as compared to the scheduled project completion date of October 6, 2009. The project received final COD on November 11, 2018.

Key Financial Indicators (Audited)

	FY2017	FY2018
Operating Income (Rs. crore)	97.2	97.2
PAT (Rs. crore)	(47.2)	(23.9)
OPBDIT/ OI (%)	80.1%	80.2%
RoCE (%)	6.3%	8.4%
Total Debt/ TNW (times)^	(3.9)	(2.9)
Total Debt/ OPBDIT (times)^	5.4	4.9
Interest coverage (times)^	1.6	2.2

Source: Company, ICRA Research

^For external debt

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

Current Rating (FY2020)					Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	April 2019	Date & Rating in FY2019			Date & Rating in FY2018	Date & Rating in FY2017
					November 2018	August 2018	April 2018	August 2017	January 2017
1	Term Loan	Long Term	350.00 350.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	NCD	Long Term	425.00 -	-	Provisional [ICRA]AAA (SO) (Stable); Withdrawn	Provisional [ICRA]AAA (SO) (Stable)	Provisional [ICRA]AAA (SO) (Stable)	Provisional [ICRA]AAA (SO) (Stable)	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	April 2016	-	May 2026	350.00	[ICRA]AA (Stable)

Source: Company

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