July 15, 2026

VRC MB Highways Private Limited: Rating reaffirmed; outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action	Financial sector regulator#
Long-term – Fund-based – Term loans	222.00	222.00	[ICRA]A- (Positive); reaffirmed; outlook revised to Positive from Stable	RBI
Total	**222.00**	**222.00**		

**Instrument details are provided in Annexure I*

#SEBI's grievance redressal/dispute resolution and SEBI investor protection mechanisms such as SCORES and ODR shall not be available for activities and instruments which fall under the regulatory purview of Financial Sector Regulators other than SEBI.

Rationale

The revision in outlook to Positive for VRC MB highways Private Limited (VMBHPL) favourably factors in the advanced stages of physical progress (~83% as of May 2026) and achievement of Provisional Completion Certificate-1 (PCC-1) w.e.f. December 31, 2025, marking the commencement of annuity-linked cash flows. The first annuity has become due in June 2026, and is expected to be received shortly, without any material deductions, apart from adjustments linked to the physical progress achieved. The rating notes that the company has received nine milestone-based construction grant payments from the National Highway Authority of India {NHAI, rated [ICRA]AAA(Stable)}, corresponding to over 80% physical progress, without any material deductions, barring statutory deductions and amounts withheld against pending structural works.

ICRA notes that a settlement agreement has been entered with the NHAI for delinking of hindered stretches for achievement of PCC-1 and extension of timeline for achievement of such stretches by December 31, 2026. The debt repayments have been realigned with the revised SCOD[1] of December 31, 2026, and are scheduled to commence from July 2027. ICRA also derives comfort from the structural features of the debt, including the presence of an escrow mechanism, cash flow waterfall, phased creation of DSRA[2] (with 50% to be funded by the sponsors seven days prior to SCOD and the balance 50% to be built up until receipt of the second annuity). ICRA also continues to draw comfort from the healthy credit profile of the sponsor, VRC Constructions (India) Limited (VRC; rated [ICRA]A (Positive)/[ICRA]A2+), which has demonstrated a strong execution track record and has provided a corporate guarantee until the receipt of the first two annuities, along with undertakings towards meeting any funding shortfalls during the construction phase and any shortfall in O&M expenses and debt servicing obligations for the project. The Positive outlook reflects ICRA's expectations of further improvement in VMBHPL's credit profile, led by steady execution progress and anticipated timely receipt of annuities and O&M payments without any material deductions.

The rating takes note of the inherent benefits of the hybrid-annuity model (HAM) based project, which includes inflation-linked revisions to the bid project cost (BPC) during the construction period, and relatively lower equity mobilisation risk, with 40% of the BPC to be funded by the authority during the construction period through a grant. The cumulative debt service coverage ratio (DSCR) is expected to remain adequate over the debt tenure. However, any drawdown of top-up debt that materially weakens coverage metrics remains a key monitorable. The rating derives strength from the inflation-adjusted operation and maintenance (O&M) cost, bid over the term of the concession by the project owner and annuity provider, the NHAI, which has

[1] *Scheduled commercial operation date*
[2] *Debt service reserve account*

a strong track record and credit profile, leading to lower counterparty credit risk. The presence of one-month buffer between the annuity due date and scheduled debt repayment date offers comfort, for any delay in annuity receipt.

The rating is, however, constrained by the residual execution risk (~83% completed as of May 2026), although this is mitigated to an extent by the fixed-price contract with VRC. The delays in obtaining approvals for changes in the scope of work resulted in the deferment of project completion timelines and continue to pose a risk to the timely achievement of the revised SCOD. While adequate funding is tied up for the residual execution, in the form of undrawn debt and residual payment milestones, VMBHPL's ability to commission the remaining project stretch within the approved timeline (linked to work-front availability) and budgeted costs continues to be important from a credit perspective. Following commissioning, O&M of the project stretch will have to be undertaken as per the concession agreement to avoid any deductions from annuities. Any significant deductions from annuities or increase in routine and major maintenance (MM) from the budgeted level could impact the company's DSCR and would be a key credit sensitivity. ICRA's rating factors in the exposure of VMBHPL's cash flows to the spread between the interest earned on the outstanding annuities, which is linked to the average one-year MCLR of top five scheduled commercial banks and the interest rate on the project loans, which is linked to the RBI's repo rate. Further, VMBHPL's cash flows are exposed to inflation risk as O&M receipts, though linked to the inflation index (70% WPI and 30% CPI), may not be adequate to compensate for the actual increase in O&M/periodic maintenance expenses.

Key rating drivers and their description

Credit strengths

Achievement of PCC-1, coupled with adequate coverage indicators and structural features – The achievement of PCC-1 on December 31, 2025, upon attaining ~70% physical progress has enabled the project to enter the annuity phase, with the first annuity having fallen due in June 2026 and expected to be realised shortly. The expected receipt of annuities and the alignment of debt repayments with the revised SCOD are expected to support VMBHPL's debt servicing ability and thereby facilitate adequate coverage metrics over the loan tenure. Further, the presence of structural features in the debt structure, including an escrow mechanism, cash flow waterfall, phased creation of DSRA (with 50% to be funded by the sponsors seven days prior to SCOD and the balance 50% to be built up until receipt of the second annuity), provision for creation of MMR, and restricted payment provisions, provides additional comfort from a credit perspective.

Inherent benefits of HAM projects from NHAI – The rating derives comfort from the inherent features of the HAM framework, which supports the revenue visibility and reduce funding risk during the construction phase. These include inflation-linked revisions in the BPC during construction and relatively lower equity mobilisation risk with 40% of the BPC funded by the NHAI through construction grants. Post completion, the project is entitled to annuity-based cash flows, interest on the outstanding annuity amount linked to the average one-year MCLR of the top five scheduled commercial banks plus spread of 1.25%, and inflation-linked O&M receipts, supporting stability in cash flows over the concession period. The strong credit profile and established track record of the NHAI limit counterparty credit risk and provides comfort from a cash flow perspective.

Established track record and financial profile of sponsor and EPC contractor – VMBHPL benefits from the strong operational track record and established financial profile of its sponsor, VRC, which is also the EPC contractor for the project. The fixed-price EPC contract provides comfort with respect to the execution of the residual works. Further, the equity mobilisation risk remains low, with the entire stipulated equity having been infused by the sponsor. The rating also derives comfort from the sponsor support mechanisms, including the corporate guarantee extended until the receipt of the first two annuities and undertakings towards meeting any funding shortfalls during the construction phase, as well as any shortfall in O&M expenses and debt servicing obligations.

Credit challenges

Execution risk related to under-construction status of project – The project had attained around 83% physical progress as of May 2026, against original SCOD of December 2024. The delays have been primarily attributable to non-availability of work front. Accordingly, the company had entered a settlement agreement with the NHAI for de-linking of stretches that were not available for execution, enabling declaration PCC-I for the completed sections on December 31, 2025. Notwithstanding this, it continues to be exposed to residual project execution risks, including risks of delays in obtaining final approvals for changes in the scope of work. These risks are, however, partially mitigated by the fixed-price EPC contract and the strong project execution capabilities of the sponsor, VRC. The company's ability to complete the residual work within the envisaged timelines and budgeted costs remains a key monitorable from a credit perspective.

Project cash flows and returns exposed to interest rate and inflation risks – VMBHPL's cash flows remain exposed to movements in interest rates, as the interest receivable on the outstanding annuity amount is linked to the average one-year MCLR of the top five scheduled commercial banks, along with a spread of 1.25%, whereas the interest cost on project debt is linked to the RBI's repo rate. Accordingly, the project's cash flows remain exposed to fluctuations in the spread between annuity-linked interest receipts and borrowing costs. Further, while O&M receipts are indexed to inflation (70% WPI and 30% CPI), they may not fully offset any increase in O&M and periodic maintenance expenses, thereby exposing the project to inflation-related risks.

Requirement of undertaking O&M as per concession agreement and risk of deductions from annuity – VMBHPL's cash flows comprise annuity receipts, interest on the outstanding annuity amount and O&M payments from the NHAI. Accordingly, the company is required to maintain the project stretch in accordance with the standards prescribed under the concession agreement to avoid deductions from annuity and O&M payments. Any material deductions from annuities or a higher-than-anticipated increase in routine and major maintenance expenditure could adversely affect the project's cash flow and debt coverage metrics and, therefore, remain key monitorable.

Liquidity position: Adequate

As the project is partially operational, the company does not maintain any significant liquidity on its books. However, its liquidity position is supported by undrawn sanctioned term loan, grants receivable from the NHAI and adequate liquidity of the sponsor. As on March 31, 2026, the residual project cost was ~Rs. 57.33 crore, which was planned to be funded through debt drawdown of ~Rs. 20 crore and the NHAI's grant of ~Rs. 54.71 crore (including the PIM component).

Rating sensitivities

Positive factors – The rating could be upgraded if the project gets completed within stipulated timelines and budgeted costs, along with a consistent track record of timely annuity receipt. An improvement in the sponsor's credit profile would also be a credit positive.

Negative factors – Pressure on the rating could arise from project delays resulting in time and cost overruns, weakening of the sponsor's credit profile, or delays in grant or equity infusion causing higher funding risks. Additionally, material delays or deductions in annuity and O&M receipts, or material incremental debt raising that weakens debt coverage metrics, would be a credit negative.

Analytical approach

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

About the company

VRC MB Highways Private Limited, incorporated in 2021, is a 100% subsidiary of VRC Constructions (India) Limited (VRC), established as an SPV for the construction of four lanes of Dhillon Nagar (Moga) to Bajakhana (Lambiwali) section of NH-105B from design chainage 0.000 km to 43.319 km under the Bharatmala Pariyojana in Punjab on a hybrid annuity model (HAM). The awarding authority for the project is the National Highways Authority of India (NHAI; rated [ICRA]AAA(Stable)). The project achieved PCC-1 on December 31, 2025, with physical progress reaching ~83% as of May 2026.

Key financial indicators (Audited)

The key financial indicators are not applicable as VMBHPL is a project-stage company

Status of non-cooperation with previous CRA: Not applicable

Any other information: The company faces prepayment risk, in case of debt acceleration upon the breach of covenants, including financial covenants, operating covenants, and rating linked covenants. Upon failure to meet the covenants, if the company is unable to get waivers from the lender or the lender does not provide it adequate time to arrange for alternative funding to pay off the accelerated loans, the rating would face pressure.

Rating history for past three years

Instrument	Current rating (FY2027)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	Jul 15, 2026	FY2026		FY2025		FY2024	
				Date	Rating	Date	Rating	Date	Rating
Fund-based – Term loans	Long-term	222.00	[ICRA]A-(Positive)	May 28, 2025	[ICRA]A-(Stable)	Apr 29, 2024	[ICRA]A-(Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity indicator
Long-term – Fund-based – Term loans	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	Financial sector regulator[#]
NA	**Term loans**	FY2023	NA	FY2041*	222.0	[ICRA]A- (Positive)	RBI

*Source: Company; *linked to SCOD, as per the revised repayment schedule.*

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Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not applicable

ANALYST CONTACTS

Ashish Modani
+91 22 6169 3300
ashish.modani@icraindia.com

Suprio Banerjee
+91 22 6114 3443
supriob@icraindia.com

Mrinal Jain
+91 124 4545 863
mrinal.j@icraindia.com

Kasak Maheshwari
+91 22 6169 3349
kasak.maheshwari@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

HELPLINE FOR BUSINESS QUERIES

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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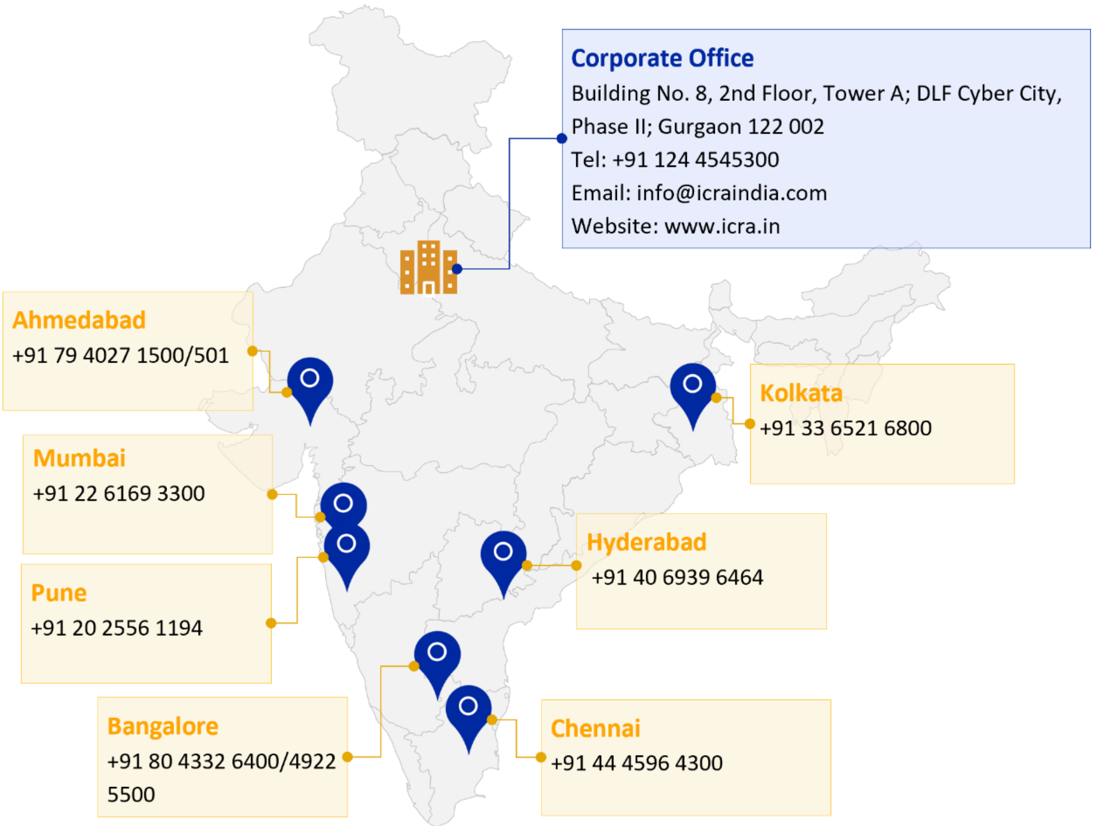
ICRA Limited

Registered Office

B-710, Statesman House, 148 Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



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