GR Akkalkot Solapur Highway Private Limited

November 18, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	159.36 (Reduced from 164.24)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Long-term bank facilities*	-	-	Withdrawn
Total bank facilities	**159.36 (₹ One hundred fifty-nine crore and thirty-six lakh only)**		
Non-convertible debentures	153.31 (Reduced from 158.00)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Non-convertible debentures*	-	-	Withdrawn
Total long-term instruments	**153.31 (₹ One hundred fifty-three crore and thirty-one lakh only)**		

Details of instruments/facilities in Annexure-1.

**The ratings assigned to the proposed sub-ordinated bank facilities amounting to ₹18.00 crore and proposed sub-ordinated non-convertible debentures amounting to ₹17.00 crore have been withdrawn based on the request received from the company as the same is not availed.*

Detailed rationale and key rating drivers

The reaffirmation of the ratings assigned to the bank facilities and instruments of GR Akkalkot Solapur Highway Private Limited (GASHPL) takes into consideration the operational status of the project with receipt of the provisional commercial operations date (PCOD) for partial length in March 2021, along with the track record of the timely receipt of three annuities without any major deduction from the National Highways Authority of India Limited (NHAI; rated CARE AAA; Stable). The ratings also factor in the achievement of considerable physical progress of 99.26% up to October 2022, thereby mitigating the residual construction risk to a large extent.

The ratings also favourably factor in GASHPL's low project leverage and minimal counterparty credit risk associated with the NHAI as an annuity provider. Given the stability of the cash flow due to the repo rate-linked structure for debt and bank rate-linked interest annuities, the risk related to the non-linear transmission of interest rates is reduced, thereby mitigating the interest rate risk to a large extent. Various liquidity support mechanisms such as cash trap, the presence of a debt service reserve account (DSRA) equivalent to six months of debt servicing requirements, the creation of a major maintenance reserve account (MMRA), and the inherent strengths of the hybrid annuity model (HAM) are other credit positives for GASHPL.

The above ratings strengths are partially offset by the inherent operation and maintenance (O&M) and major maintenance (MM) risk associated with the project and the right to reset the interest rate spread with lenders after every four years. Nevertheless, the structural features in the form of an MMRA combined with the ability of the sponsor to absorb excess MM outgo over and above the envisaged levels, are expected to impart cash flow resilience to GASHPL. The ratings also take note of a 'put' option exercisable at the end of every four years against a notice period of 90 days, thus exposing GASHPL to refinancing risk. However, the strong credit profile of the counterparty, the adequate project leverage, and the timely receipt of annuity mitigate the risk in the event of the exercise of the 'put' option to a large extent.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

Not applicable

Negative factors – Factors that could lead to negative rating action/downgrade:

- Deterioration in the credit profile of the authority (ie, NHAI).

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

- Non-adherence to sanctioned debt terms.
- Significant delays or deduction in annuities, resulting in a moderation in the debt coverage indicators.
- Any adverse movement in the O&M expenses or increase in the spread of the interest rate, lowering the debt service coverage ratio (DSCR) below 1.20x on a sustained basis.

Detailed description of the key rating drivers

Key rating strengths

Operational status of the project with an established track record of the timely receipt of annuities: GASHPL has received the PCOD on March 31, 2021, for a completed length of 27.650 km (70.98%) of the total project length of 38.952 km. The PCOD was granted on the work completed on land made available to the company up to December 31, 2019. The physical progress of the project stood at 81.95% at the time of the PCOD. Up to October 2022, the physical progress stood at 99.26%, with a pending construction cost of around ₹6 crore, against which the company has lien-marked fixed deposit receipts (FDRs) of an equivalent amount, thereby mitigating the residual construction risk to a large extent. The pending work pertains to a 200-metre stretch, the land of which is yet to be made available by the authority.

GASHPL has a track record of the receipt of three bi-annual annuities on time without any deductions up to October 2022. The construction annuity as well as the interest annuity have been received in full, while the O&M annuity is received on a proportionate basis of the length completed. CARE Ratings Limited (CARE Ratings) also notes that the 3rd O&M annuity due in October 2022, amounting to around ₹1.29 crore is yet to be received. The same is expected to be received by the end of November 2022.

Healthy debt coverage indicators post refinancing and the mitigation of interest rate risk to a larger extent: The debt is linked with the repo rate with a fixed spread for the first four years and the reset clause at the end of every four years thereafter. Given the stability of the cash flow due to the repo rate-linked structure for debt, the interest rate risk is mitigated to a large extent and the debt coverage indicators are expected to remain healthy on a consistent basis. The debt will have a tail period of 1.92 years.

Assured cash flow due to the annuity nature of the revenue stream linked to inflation-indexed bid project cost (BPC) as well as O&M annuity and bank rate-linked interest annuity: During the operational phase, the cash flow in HAM-based projects is assured in the form of annuity payments from the NHAI on a semi-annual basis covering 60% of the project completion cost along with interest annuity at 'bank rate plus 3%' on reducing balance and inflation-indexed O&M annuity.

Low counterparty credit risk: Incorporated by the Government of India (GoI) under an Act of Parliament as a statutory body, the NHAI functions as the nodal agency for the development, maintenance, and management of the national highways in the country. The outlook on NHAI reflects the outlook on the sovereign, whose direct and indirect support continues to be the key rating driver. GASHPL has received all the construction grants from NHAI and three semi-annuities without any delays or deductions.

Key rating weaknesses

Inherent O&M risk associated with the project: Although the receipt of inflation-indexed O&M annuity partly mitigates the O&M risk, GASHPL is still exposed to the risk of any sharp increase in the O&M cost due to more-than-envisaged wear and tear. However, the project stretch being a rigid pavement is less prone to wear and tear as compared to flexible pavements. CARE Ratings notes that the O&M, as well as MM assumptions of GASHPL, are relatively lower as compared to its peers and the fixed-price O&M arrangement (excluding electricity cost and project insurance cost) is limited to only one year. However, in the base case, CARE Ratings has assumed the O&M and MM outgo in line with its industry aggregates for similar projects and has found the coverage indicators comfortable.

Apart from low project leverage, the provision of an MMRA enhances the ability to absorb higher MM outgo. Furthermore, the sponsor has provided an undertaking to fund the shortfall in the O&M and MM expenses over and above the base case scenario and any other shortfall in debt servicing until the settlement of the loan.

Put option in debt: The debt has a 'put' option exercisable at the end of every four years against a notice period of 90 days, thus exposing GASHPL to refinancing risk. However, the strong credit profile of the counterparty, the adequate project leverage, and the timely receipt of annuity mitigates the refinancing risk to a large extent.

Liquidity: Strong
GASHPL is envisaged to generate healthy cash flows, backed by a steady revenue stream in the form of annuity payments throughout the tenure of the term loan. There is also a gap of around one month between the scheduled annuity payment date and the debt repayment date, which provides an additional cushion in case of a delay in receipt of the annuity. As on September 30, 2022, GASHP has created a funded DSRA equivalent to six months of debt servicing obligations amounting to ₹22.47 crore and an MMRA amounting to ₹1.92 crore as per sanctioned conditions. Furthermore, the favourable restricted payment covenants linked to the maintenance of the stipulated DSCR, over and above the DSRA and MMRA, is expected to provide a cash flow cushion.

Analytical approach: Standalone

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Hybrid Annuity Model based road projects
Policy on Withdrawal of Ratings

About the company

GASHPL, a special purpose vehicle (SPV) incorporated and owned by GR Infraprojects Limited (GRIL; rated 'CARE AA; Stable/CARE A1+') has entered into a 17-year concession agreement (CA) (including a construction period of 730 days from the appointed date) with the NHAI for the four-laning of a 38.952-km rigid pavement road on the design, build, finance, operate, and transfer (DBFOT) hybrid annuity basis. GASHPL has achieved the PCOD on March 31, 2021, for 27.650 km of the project length, i.e., 70.98% of the total 38.952 km. The adjusted BPC is finalised at ₹1,023.49 crore.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	277.42	147.42	24.74
PBILDT	19.53	61.62	12.43
PAT	2.87	23.46	2.10
Overall gearing (times)	10.32	7.78	NA
Interest coverage (times)	1.23	1.95	NA

A: Audited; UA: Unaudited; NA: Not applicable.
Note: Financials are as per IND-AS, wherein, it has recognised the financial assets as the present value of annuities receivables under its concession (discounted based on effective interest rate method) and interest income on these assets as it accrues during the year. Hence, these financials are less meaningful.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non-convertible debentures	INE017707014	02-12-2021	7.85	31-10-2034	153.31	CARE AAA; Stable
Debentures-Non-convertible debentures	Proposed	NA	NA	-	0.00	Withdrawn
Fund-based - LT-Term loan	Proposed	-	-	-	0.00	Withdrawn
Fund-based - LT-Term loan	-	-	-	31-10-2034	159.36	CARE AAA; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1.	Fund-based - LT-Term loan	LT	-	-	-	1)Withdrawn (20-Dec-21)	1)CARE A; Stable (01-Oct-20) 2)CARE A; Stable (01-Sep-20)	1)CARE A; Stable (28-Jun-19)
2.	Non-fund-based - LT-Bank guarantee	LT	-	-	-	-	1)Withdrawn (01-Oct-20) 2)CARE A; Stable (01-Sep-20)	1)CARE A; Stable (28-Jun-19)
3.	Debentures-Non-convertible debentures	LT	153.31	CARE AAA; Stable	-	1)CARE AAA; Stable (19-Nov-21)	-	-
4.	Fund-based - LT-Term loan	LT	159.36	CARE AAA; Stable	-	1)CARE AAA; Stable (19-Nov-21)	-	-
5.	Debentures-Non-convertible debentures	LT	-	-	-	1)CARE AAA; Stable (19-Nov-21)	-	-
6.	Fund-based - LT-Term loan	LT	-	-	-	1)CARE AAA; Stable (19-Nov-21)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	
DSRA equivalent to six months debt servicing will be created upfront before the first disbursement and will be topped up periodically on a continual basis from project cash flows.	DSRA balance as on September 30, 2022, is ₹22.47 crore
The MMRA to be created and maintained as per the stipulation	MMRA balance as on September 30, 2022, is ₹1.92 crore
'Put' option can be exercised at the end of every four years from the date of the first disbursement. Any debenture holder choosing to exercise the option to seek redemption will at least, 90 days prior to the relevant 'put' date, issue a notice to the issuer to redeem the relevant outstanding debentures on the 'put' date.	
Minimum DSCR of 1.20x and tail period of two annuities.	

Annexure-4: Complexity level of the various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1.	Debentures-Non-convertible debentures	Complex
2.	Fund-based - LT-Term loan	Simple

Annexure-5: Bank lender details for this company

To view the lender-wise details of the bank facilities, please click here.

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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