CDS DAK-2 Expressway Private Limited

April 04, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	345.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Assigned
Total Bank Facilities	**345.00 (Rs. Three hundred forty-five crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of CDS DAK-2 Expressway Private Limited (CDAK-2) factors in the inherent strengths of hybrid annuity model (HAM) based road projects such as (i) lower project funding risk with 40 percent of bid project cost available as grant from National Highways Authority of India (NHAI; rated 'CARE AAA; Stable') during construction period, inflation-indexed annuity to be received for construction and favourable clauses introduced in the concession agreement (CA) to mitigate challenges to project execution (ii) lower post-implementation risk on account of inflation-indexed annuity to be received for operations and maintenance (O&M) of the road and (iii) receipt of marginal cost of lending rate (MCLR) linked interest annuity.

The rating of CDAK-2 also derives strength from the fixed-price fixed-time engineering, procurement and construction (EPC) contract with the sponsor- CDS Infra Projects Limited (CDSIPL), which has an established track record of constructing roads and highways. The rating also factors favourably the credit quality of the underlying annuity receivables from NHAI subsequent to commencement of operations. Furthermore, low project leverage, comfortable debt coverage indicators, proposed liquidity support mechanism such as creation of debt service reserve account (DSRA) and major maintenance reserve (MMR) and undertaking extended by the sponsor to fund any shortfall in debt servicing gives comfort from credit perspective.

The above rating strengths are, however, tempered by the inherent construction risk associated with the project execution, susceptibility to changes in operations and maintenance (O&M) cost and interest rate.

Rating sensitivities:

Positive Factors - Factors that could lead to positive rating action/upgrade:
- Completion of project on or before scheduled COD, and timely receipt of first annuity.
- Timely creation of DSRA and MMRA reserves.

Negative Factors- Factors that could lead to negative rating action/downgrade:
- Deterioration in the credit profile of sponsor (CDSIPL) or counter party (i.e. NHAI).
- Delay in project progress including achievement of project milestones leading to levy of penalty by NHAI

Detailed description of the key rating drivers

Key Rating Strengths

Hybrid annuity structure of the project, with favourable clauses in concession agreement to address execution challenges:

The concession agreement (CA) – in line with the model CA for HAM projects – includes clauses that serve to partially secure the project and its lenders against construction risks, including delays in land acquisition. Such clauses include stipulating the achievement of at least 80% right-of-way (RoW) as a precedent condition for declaring appointed date for the project. Besides, there is a provision for granting deemed completion of the project in case 100% of the work is completed on the RoW which becomes available to it within 180 days of the appointed date. In addition, stringent clauses for levy of damages, encashment of performance security as well as requirement of additional performance security in case of delay in execution due to reasons attributed to the concessionaire act as significant disincentives against slippages in execution.

Low funding risk and permitted price escalation:

The HAM model entails lower sponsor contribution during construction period considering 40% construction support from NHAI and availability of 10% mobilization advances on bid project cost (BPC). BPC and O&M cost shall be inflation indexed (through a Price Index Multiple [PIM]), which is the weighted average of Wholesale Price Index (WPI) and Consumer Price Index (CPI) in the ratio of 70:30. The inflation-indexed BPC protects the developers against price escalation to an extent.

Cash flow visibility due to annuity nature of the revenue stream linked to inflation indexed O&M annuity and MCLR linked interest annuity:

During operational phase, cash flow is assured in the form of annuity payments from NHAI on semi-annual basis covering 60% of the project completion cost along with interest at 'average of one-year MCLR of top 5 scheduled commercial banks plus 1.25%' on reducing balance and inflation indexed O&M annuity.

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

Comfortable debt coverage indicators on account of low project leverage:
The project is being financed at a debt-equity ratio of 2.90:1. The total debt envisaged stands at Rs.345 crore against the BPC of Rs.959 crore, which amounts to about 36% of the BPC leading to comfortable debt coverage indicators. The project also has a tail period of about 2 years providing financial flexibility.

Low counterparty credit risk:
Incorporated by the Government of India (GoI) under an Act of the Parliament as a statutory body, NHAI functions as the nodal agency for 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.

Demonstrated track record of CDSIPL in executing road projects:
CDAK-2 has entered into a fixed price fixed time EPC contract with CDSIPL. CDSIPL has more than a decade track record in the execution of road projects and bridges, construction of buildings and other civil construction works. The overall functions of CDSIPL are looked after by Mr. Sandeep Chandra, who is the Managing Director of the company having an experience of more than three decades in the construction sector. The company has demonstrated its execution capabilities in the past with completion of projects within stipulated time and is supported by a team of qualified and technical personnel who have been associated with the company for many years.

Undertakings for meeting exigencies and proposed DSRA:
CDSIPL as sponsor, has extended an undertaking to the lenders to fund cost overruns beyond budgeted cost, to provide additional funds in case of delay or non-receipt of construction grant from NHAI during the construction period and provide additional funds, over and above the termination payment received from NHAI, in case of termination of the project and to meet any shortfall in debt servicing for CDAK-2.
Furthermore, as per the terms of sanction, the company shall create and maintain DSRA equivalent to debt servicing requirement of six months out of the receipt of first two annuity payments. The sponsor has an option of creating the same in the form of bank guarantee (BG).

Key Rating Weaknesses
Inherent project execution risk albeit partly offset demonstrated capability of the sponsor cum EPC contractor:
Notwithstanding the availability of about 81% of ROW and demonstrated track record of CDSIPL as an EPC contractor in executing similar road projects, CDAK-2 is exposed to inherent construction risk attached with road projects. The company received the appointed date on January 14, 2022, and the project implementation works are at an initial stage with physical progress of about 3% till February 2022. Nevertheless, demonstrated track record of CDSIPL as an EPC contractor in executing large sized projects mitigates the execution risk to an extent. Furthermore, the sponsor, CDSIPL has two HAM projects in its portfolio for which upfront equity commitment has been met and the balance commitment has to be infused over FY22-24. Going forward, timely infusion of equity and implementation of project, without any cost and time overrun would be critical.

Inherent O&M risk associated with project:
While the inflation-indexed O&M annuity partly mitigates O&M risk, the disparate movement in inflation index (70% WPI; 30% CPI) and the O&M cost heads poses a risk. Besides, the company could face the risk of a sharp increase in the O&M cost in the event, wear and tear on the road is more than the extent envisaged during bidding and aggressive bidding in O&M cost. However, presence of sponsor undertaking to fund O&M and MM cost in excess of base case assumptions gives comfort from credit perspective.

Inherent interest rate risk:
CDAK-2 is exposed to inherent interest rate risk considering floating rate of interest with reset clause linked to the reset of spread every year post completion of the project. Although reimbursement of the interest cost in the form of interest annuity payable by NHAI biannually at an interest rate equal to the average of one-year MCLR of top 5 scheduled commercial banks plus spread of 125 bps on 60% of the project completion cost (on the reducing balance), mitigates the risk arising in earlier concession agreements due to the lag effect between bank rate and MCLR.

Liquidity: Adequate
The financial closure for the project has been achieved and appointed date (AD) is received on January 14, 2022. The total debt envisaged of Rs.345 crore has been sanctioned and the sponsor has infused the upfront equity requirement of Rs.59.52 crore. Furthermore, the various undertakings to fund any cost overrun for project completion, operation and maintenance have been executed by the sponsor.

Analytical approach: Standalone while factoring sponsor's undertaking and track record of sponsor cum EPC contractor.
Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Financial Ratios – Non-Financial Sector
Rating Methodology - HAM Road Projects
Rating Methodology - Factoring Linkages in Ratings
Liquidity Analysis of Non-financial sector entities

About the Company

CDS DAK-2 Expressway Private Limited (CDAK-2), a special purpose vehicle (SPV) promoted by CDS Infra Projects Limited (CDSIPL) has entered into a 15-year concession agreement (CA; excluding construction period of 730 days from Appointed Date) with National Highways Authority of India (NHAI, rated 'CARE AAA; Stable) for construction of Four- Lane Greenfield Delhi- Amritsar –Katra Expressway from Junction with Rohatk Panipat Road (NH-709) near Rukhi Panni village to Junction with Jind-Panipat Road (NH-352A) near Gangana Village Km 34+000 to Km 60+800) on Hybrid Annuity Mode under Bharatmala Pariyojana in the state of Haryana. The project is scheduled to be completed within 730 days from the Appointed Date (AD; January 14, 2022) at a total cost of Rs.847.44 crore; being funded through debt of Rs.345.00 crore, construction grant from NHAI of Rs.383.60 crore and balance through promoter's contribution of Rs.118.84 crore (Debt equity ratio of 2.90x).

Brief Financials: Not applicable as the company is a project stage entity.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	NA	-	-	Feb, 2037	345.00*	CARE BBB+; Stable

**includes Mobilization advance Bank Guarantee (MABG) of Rs.105.49 crore and Performance BG(PBG) of Rs.28.77 crore as a sub-limit of term loan facility*

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT*	345.00	CARE BBB+; Stable				

* Long Term

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

Name of the Facility- RTL	Detailed explanation
A. Financial covenants	
i. Debt service coverage ratio (DSCR)	DSCR shall, at any point of time shall not fall below 1.10x
ii. Debt Equity ratio (DER)	DER shall not exceed 2.90:1 during construction phase
B. Non-financial covenants	**NA**

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

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:
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