

Ramky Elsamex Hyderabad Ring Road Limited

January 05, 2021

Rating

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	1.00* (Reduced from 17.03)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Total Facilities	1.00 (Rs. One Crore Only)		

Details of instruments/facilities in Annexure-1

**The bank loan facilities rated by CARE has been entirely pre-paid by the company and the rating will be withdrawn subsequent to the receipt of No Due Certificate from banker(s).*

Detailed Rationale & Key Rating Drivers

The ratings assigned to the Ramky Elsamex Hyderabad Ring Road Limited (REL) is on account of timely receipt of annuities from Hyderabad Metropolitan Development Authority (HMDA) post arbitration award, successful completion of major maintenance cycle and prepayment of entire debt obligations in 9MFY21 (during the period April 01, 2020 to December 30, 2020). Further, the ratings are tempered by O&M risk along with weak sponsor profile. However, the rating derives strength from adequate liquidity position post prepayment of entire debt obligation, moderate credit risk associated with annuity provider and favourable Arbitral Tribunal Award resulting in crystallization of cash flows.

Positive Rating Factors

-Timely receipt of annuities from HMDA without deductions

Negative Rating Factors

-Further any deductions and delay in receipt of balance annuities

Detailed description of the key rating drivers

Key Rating Strengths

Moderate Credit Risk Associated with Annuity Provider – HMDA: Hyderabad Metropolitan Development Authority (HMDA) is the apex agency with strategic importance to the Government of Telangana for planning, regulating, developing and coordinating the overall urban development functions in the entire Hyderabad Metropolitan Region (HMR). HMDA provides infrastructure facilities like construction of flyover, widening roads, maintenance of lakes parks and greenery and has executed large projects like – Elevated Express Highway Corridor, Outer Ring Road (through HGCL), etc. HMDA generates revenues from various charges/ fees such as development charges, layout permission charges, toll collection through HGCL etc. In FY2018, the entity reported a net surplus of Rs. 53.25 crore on a revenue income (RI) of Rs. 272.20 crore, as compared to a net deficit of Rs. 67.64 crore on an RI of Rs. 98.25 crore in the previous year. By virtue of being a quasi-government body, the risk arising from HMDA defaulting on the annuity payments is very moderate. Any adverse change in the credit profile of the counterparty is a key rating sensitivity.

Favourable Arbitral Tribunal Award resulting crystallization in cash flows: The Company and HMDA had issues related to claim on the bonus annuity for early completion of the project, which was not able to resolve by the Independent consultant. Hence, the company had invoked arbitration, which is provided under 39.2 clause of the concession agreement through its letter dated August 10, 2012. The Hon'ble Arbitral Tribunal in their order dated June 18, 2018 has conveyed that the HMDA (Respondents) has to pay the company a total claim of Rs 168.37 crore within three months from the date of the award failing which the HMDA shall pay interest as per SBI PLR on the said amount till the realization of the entire payment. However HMDA did not make the payment as per the stipulated timeline of the order. **However, the same can be contested by HMDA in courts of law thereby the same has not been factored in the project cash flows.**

Timely receipt of annuities without deductions from HMDA, post arbitration award: The project is an operational annuity based project and is thus not exposed to any traffic risk. REL is eligible for semi-annual annuities of Rs.31.50 crore. The project has received all the scheduled 21 semi-annual annuities till December 2020 with major deductions in 1st, 4th and 21st annuity. Post arbitration award in June 2018, the company received its 18th annuity with 69 days delay i.e August 3, 2019 as against the due date of May 26, 2019 without any deduction. Further, the company received its 19th annuity on time i.e November 26, 2019 without any delay and deduction. There has been significant improvement in timely receipt of payment from 120 to 400 days of delay to 69 days and further reduce to zero day payment. The 20th annuity was received on June 8, 2020 against due date of May 26, 2020 is due to procedural delay on account of Covid lockdown. The 21st annuity was received on December

¹ Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

08, 2020 against due date of November 26, 2020, on account of elections held to the Hyderabad local body and formation of the new administrative team. The company has not availed moratorium relief provided by lenders under Covid-19.

Successful completion of major maintenance cycle: The Company has successfully completed the major maintenance expenditure at a total cost of Rs 38.32 crore (at Rs 37.93 lac/lane/km) against the initial estimates of Rs 30.13 crore. The company has met the expenditure from the annuity receipts. Hence no major expenditure is expected at the end of concession period.

Prepayment of entire debt obligation: The Company has reduced the outstanding debt significantly from Rs 93 crore as on December 31, 2018 to Rs 42.38 crore on March 31, 2020 and further reduced by Rs 26.38 crore during H1FY21. Upon receipt of its 21st annuity on December 08, 2020, the company prepaid its entire debt obligations. The company is awaiting No due certificate from bankers, pending ongoing discussions regarding the prepayment charges.

Interest rate risk: The Company has repaid its entire outstanding debt obligation and hence is no longer exposed to Interest rate risk.

Key Rating Weaknesses

O&M (Operation and Maintenance) Risk: The Company is mandated to operate and maintain the road as per specifications set out in the CA, non-compliance of which could result in penalties being levied by Authority and thereby exposing REL to O&M risk. In-house team of the company is undertaking routine maintenance works, which works out to 4.20 lakh/km/lane for FY20.

Weak sponsor profile: Ramky Elsamex Hyderabad Ring Road Limited is a Special Purpose Vehicle (SPV) incorporated on July 18, 2007 by Ramky Infrastructure Ltd and Elsamex SA a Spanish engineering and Construction Company and a subsidiary of IL&FS Transportation Networks Limited, which held 74% and 26% stake in the company respectively. Ramky Infrastructure Limited in its letter dated November 29, 2020 informed Stock exchanges (BSE & NSE) that it has acquired the 26% stake of Elsamex SA, whereby REL became a wholly owned subsidiary. The sponsor has been downgraded to Default grade by various credit rating agencies.

Adequate Liquidity position: The adequate liquidity of the company is characterized by voluntarily prepayment along with regular payment of entire loan of about Rs 26.34 crore during Q1FY21 and Rs.15.03 crore in H2FY21. After prepayment of its entire outstanding loans on December 09, 2020, the company has cash balances of Rs.3.15 crore. In view of Covid-19 pandemic, the company had not availed any moratorium since the cash flows are not affected due to annuity based nature.

Analytical Approach: Standalone

Applicable Criteria:

[Criteria on assigning 'Outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology-Annuity road projects](#)

[Financial Ratios - Non-Financial Sector](#)

[Liquidity analysis of Non-financial sector entities](#)

About the Company

Ramky Elsamex Hyderabad Ring Road Limited (REL) is a Special Purpose Vehicle (SPV) incorporated on July 18, 2007 by Ramky Infrastructure Ltd (Ramky, rated CRISIL D on February 27, 2020) and Elsamex SA a Spanish engineering and Construction Company and a subsidiary of IL&FS Transportation Networks Limited (IND D and ICRA D; Issuer Not Cooperating), which held 74% and 26% stake in the company respectively. Ramky Infrastructure Limited in its letter dated November 29, 2020 informed Stock exchanges (BSE & NSE) that it has acquired the 26% stake of Elsamex SA, whereby REL became a wholly owned subsidiary. The project was awarded for design, construct, develop, finance, operate and maintain eight-lane access-controlled expressway under Phase II -A program in the Hyderabad city for a stretch of 12.63 km from Tukkuguda (Km 121) to Shamshabad (Km 133.63), under the Build, Operate & Transfer (BOT) Annuity Basis by HMDA (erstwhile Hyderabad Urban Development Authority – HUDA). The Concession Agreement was signed between HMDA and REL on August 18, 2007 for a concession period of 15 years, which includes 30 months of construction period. The project was awarded based on the lowest semi-annual annuity quote of Rs 31.50 crore along with a construction grant of Rs 66.50 crore. The total project cost was estimated at Rs 399.37 crore, which was envisaged to be funded by promoter contribution of Rs 45 crore, Grant of Rs 66.50 crore and term loans of Rs 287.87 crore at a Debt Equity ratio of 2.58:1 (after considering grant from HMDA as equity). The project was completed and received Provisional Completion Certificate dated March 31, 2010 retrospective from November 26, 2009

against the Scheduled Project Completion Date (SPCD) of May 27, 2010. Hence, REL was eligible for bonus of one annuity payment on account of early completion of project. Further, REL received final completion certificate retrospective from September 16, 2010. The Company and HMDA had issues related to claim on the bonus annuity for early completion of the project, which was not able to resolve by the Independent consultant. Hence, the company had invoked arbitration, which is provided under 39.2 clause of the concession agreement through its letter dated August 10, 2012. The Hon'ble Arbitral Tribunal in their order dated June 18, 2018 has conveyed that the HMDA (Respondents) has to pay the company a total claim of Rs 168.37 crore within three months from the date of the award failing which the HMDA shall pay interest as per SBI PLR on the said amount till the realization of the entire payment. However HMDA did not make the payment as per the stipulated timeline of the order.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	49.23	43.11
PBILDT	26.17	20.64
PAT	5.32	1.39
Overall gearing (times)	2.53	4.07
Interest coverage (times)	1.42	1.04

A: Audited

Status of non-cooperation with previous CRA: Non-cooperation with other CRA(s): ICRA Ltd vide its press release dated June 26, 2015 has suspended rating on account of lack requisite information to carry out review.

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

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	February, 2022	1.00	CARE BBB-; Stable

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	1.00	CARE BBB-; Stable	1)CARE BBB-; Stable (16-Jul-20) 2)CARE BB+; Stable (12-May-20)	1)CARE BB-; Stable (04-Apr-19)	-	1)CARE D (28-Mar-18)

Annexure-3: Detailed explanation of covenants of the Rated instrument / Facilities: Not applicable

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	Simple

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

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