DBL Rewa Sidhi Highways Private Limited

July 07, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	335.20	CARE A+; Positive (Single A Plus; Outlook: Positive)	Revised from CARE A-; Positive (Single A Minus; Outlook: Positive)
Total Bank Facilities	**335.20 (₹ Three Hundred Thirty-Five Crore and Twenty Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the rating assigned to the bank facilities of DBL Rewa Sidhi Highways Private Limited (DRSHPL) takes into account substantial project progress with near completion status of the project with physical progress of 97% till May 2022 which is ahead of its schedule and expectation of achievement of commercial operations date (COD) by end of July 2022. The rating continues to factor in the inherent strengths of hybrid annuity model (HAM) based road projects such as (i) low project funding risk with inflation-indexed annuity to be received along with Low credit risk of the Counter party – National Highways Authority of India (NHAI; rated CARE AAA; Stable) (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 bank rate linked interest annuity. However, unlike the clauses contained in the CA, delay in de-scoping of the unavailable project land has been witnessed in some of the on-going HAM road projects.

The rating further continues to derive strength from the established track record of its sponsor and engineering, procurement and construction (EPC) contractor i.e. Dilip Buildcon Ltd (DBL; rated 'CARE A-; Stable/ CARE A2+') in executing large sized road projects. The rating continues to remain underpinned by low counterparty risk towards annuity receivables from National Highways Authority of India (NHAI, rated CARE AAA; Stable) post commencement of operations, presence of defined cashflow mechanism by way of escrow arrangement, proposed liquidity support mechanisms such as the envisaged creation of debt service reserve account (DSRA) and major maintenance reserve account (MMRA) post commencement of operations along with relatively lower debt levels as against bid project cost (BPC) leading to adequate debt coverage indicators.

The above rating strengths are, however, tempered by the inherent residual construction risk, inherent O&M risk and interest rate risk.

Rating sensitivities

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

- Achievement of PCOD within envisaged timelines
- Establishment of track record of timely receipt of annuities post commencement of operations and creation of stipulated DSRA

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

- Significant delay in the project completion impacting COD beyond days from the SCPD.
- Deterioration in DSCR below 1.20 times due to increase in O&M expenses or annuity deductions, if any.
- Deterioration in the credit profile of the sponsor (i.e. DBL) or the counter-party (NHAI)

Outlook: Positive

The positive outlook is continued on account of CARE's expectation of achievement of COD by July 2022 due to near completion status of the project (97% till May 31, 2022) along with 100% availability of land.

The outlook may be revised to stable in case of any major delay in achievement of COD as envisaged.

Detailed description of the key rating drivers

<u>Key rating strengths</u>

Near Completion status of project largely mitigating execution risk: DRSHPL has achieved physical progress of 97% till May 2022 and 100% of RoW is available. Further, the project is envisaged to be completed by July 2022 which would be around 8 months ahead of its scheduled date of completion of March 2023. As per the LIE report of March 2022, the project had achieved a physical progress of 96% till March 2022, despite disruption of operations from March 2020 to May 2020 due to Covid 19 and consequent lockdown. Further, the project includes tunnel work and out of 72.37% of the tunnel work, 70.04% has already been completed as on March 24, 2022. Furthermore, DRSHPL has also received all 5 milestone payments. DRSHPL's ability to complete the residual work and achieve PCOD within envisaged timelines is key monitorable.

Favourable clauses in model CA of HAM projects to address execution challenges: The model CA of HAM projects include favourable clauses such as achievement of at least 80% RoW before declaring appointed date for the project and

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

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. These clauses were expected to address some of the issues which were plaguing the sector primarily on account of delay in land acquisition during construction phase. However, pending de-scoping of unavailable land despite significant time having lapsed from the appointed date has been affecting the project progress in some of the projects awarded under this model which has emerged as a cause of concern from the credit perspective for the industry. Hence, timely de-scoping of unavailable project land within 180 days from appointed date as per terms of CA will be a key monitorable for HAM-based road projects. However, during July 2020; NHAI released an SOP pertaining to the approach towards de-scoping whereby, immediately after the expiry of the period of appointed date plus 20% of the construction period, the pending RoW will be removed from the scope of work and the BPC shall be suitably reviewed. In case of DRSHPL, the RoW available is 100% as at March 2022 end.

Low funding risk and permitted price escalation: HAM model entails lower sponsor contribution during construction period considering 40% construction support from NHAI and availability of 10% mobilization advance on bid project cost (BPC) at bank rate. Furthermore, 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. Inflation indexed BPC protects the developers against price escalation to an extent.

Assured cash flow due to annuity nature of the revenue stream linked to inflation indexed O&M annuity and bank rate 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 'bank rate plus 3%' on reducing balance and inflation indexed O&M annuity. However, non-linear transmission of bank rate over lending rate is expected to impact the company's debt coverage indicators to an extent.

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 DBL in executing road projects: DBL has demonstrated track record of successfully operating and maintaining build-operate and transfer (BOT) projects for more than a decade. DBL has pan India presence in more than 15 states with diversified execution capabilities in roads & bridges, mining, water sanitation, sewage, dams, irrigation, industrial, commercial and residential buildings. DRSHPL has also entered into fixed price EPC contract with DBL for execution of the project. Also, 100% of the sponsor contribution has been infused as per CA certificate dated March 25, 2022. In lines with DBL's fund raising plans under DBL Infra Assets Private Limited (DIAPL; rated CARE BBB+; Stable), 70% of ownership of DRSHPL has been transferred to DIAPL. Furthermore, DBL has also entered into a binding agreement with Shrem for transfer of 10 SPVs to Shrem InvIT (including DRSHPL) upon achieving of COD and upon receipt of requisite NOC from investors of DIAPL, against which DBL shall receive consideration by way of mix of cash and InvIT units.

Key rating weaknesses

Inherent O&M risk: Although inflation indexed O&M annuity partly mitigates O&M risk, developers would still face the risk of sharp increase in the O&M cost due to more than envisaged wear and tear and aggressive bidding in O&M cost. The project stretch consists of flexible (bituminous) pavement which is prone to higher O&M cost compared to rigid pavement. The O&M cost assumed by the company is relatively lower than other similar projects rated by CARE. The adjacent stretch is also under development by DBL and as articulated by the management, the same shall result into operational synergies resulting in lower O&M costs for both the projects. However, DRSHPL shall enter into fixed price and fixed time O&M contract with the sponsor whereby DBL shall be responsible for the maintenance of the stretch, which provides some comfort.

Inherent interest rate risk: DRSHPL is exposed to inherent interest rate risk since the project debt is sanctioned with a floating rate of interest which is reset periodically. While the risk is partially mitigated on account of receipt of the interest annuity at the applicable bank rate + 300 bps, DRSHPL remains exposed to interest rate risk owing to the timing difference between change in the bank rate & lending rate and non-linear transmission of change in bank rates to lending rates. However, steep impact on debt coverage indicators is precluded due to higher gap expected between inflation indexed completion cost and cost of project considered for financial closure.

Liquidity: Adequate

Debt servicing of first six months post PCOD is part of project cost leading to limited support requirement from DBL. DRSHPL shall receive annuity payments from NHAI post six months of the COD (expected by July 2022) and has some cushion of around 15 days between annuity receipt date and repayment date. As per the terms of sanction of the project debt, the company shall maintain DSRA, of an amount equivalent to ensuing six months of interest and principal repayment in form of fixed deposit receipts (FDR) or Bank Guarantee in respect of the facility which is expected to provide liquidity cushion to DRSHPL.

Analytical approach: Standalone

Earlier, CARE's analytical approach was standalone factoring execution track record of EPC contractor along with sponsor undertaking. However, with near completion status of the project, expectation of timely receipt of COD and availability of funds till receipt of first annuity, the approach has now been changed to standalone.

Applicable criteria

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

About the company

DBL Rewa Sidhi Highways Private Limited, a special purpose vehicle (SPV) incorporated and owned by DBL has entered into 19-year concession agreement (CA) (including construction period of 1460 days from appointed date) with NHAI for the design, build, operate and transfer (DBOT) of 15.350 km road on hybrid annuity basis. The project under consideration aims at four laning of Churhat Bypass on the Rewa - Sidhi section of NH-75E from chainage km 33+200 to km 55+400 including construction of twin tube road tunnel of 2.28 km length in the state of Madhya Pradesh. The bid project cost for the project is Rs.1004.00 crore. Estimated completion cost of the project is Rs.815.20 crore which is to be funded through construction grant from NHAI of Rs.439.60 crore (including inflation), debt of Rs.285 crore and balance through promoter's contribution. The stretch has received appointed date on December 14, 2018.

Brief Financials:

Brief Financials (₹ crore)	March 31, 2020 (A)	March 31, 2021 (A)	March 31, 2022 (A)
Total operating income	NA	NA	NA
PBILDT	NA	NA	NA
PAT	NA	NA	NA
Overall gearing (times)	NA	NA	NA
Interest coverage (times)	NA	NA	NA

NA: Not Applicable

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 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	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Term Loan-Long Term		-	-	August 2034	285.00	CARE A+; Positive
Non-fund-based - LT-Bank Guarantee		-	-	-	50.20	CARE A+; Positive

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	Term Loan-Long Term	LT	285.00	CARE A+; Positive	-	1)CARE A-; Positive (30-Sep-21)	1)CARE A-; Stable (28-Aug-20)	1)CARE A-; Stable (26-Aug-19)
2	Non-fund-based - LT-Bank Guarantee	LT	50.20	CARE A+; Positive	-	1)CARE A-; Positive (30-Sep-21)	1)CARE A-; Stable (28-Aug-20)	1)CARE A-; Stable (26-Aug-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

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

Sr. No.	Name of Instrument	Complexity Level
1	Non-fund-based - LT-Bank Guarantee	Simple
2	Term Loan-Long Term	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 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:
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