DRA Rameshwaram Infra Private Limited

January 13, 2023

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	**284.38**	**CARE A; Stable (Single A; Outlook: Stable)**	**Assigned**
Total Facilities	**284.38 (Rs. Two Hundred Eighty-Four Crore and Thirty-Eight Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the bank facilities of DRA Rameshwaram Infra Private Limited (DRIPL) factors 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 for construction and favorable clauses introduced in the concession agreement (CA) to de-bottleneck project execution challenges (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 MCLR linked interest annuity. However, unlike the clauses contained in the CA, delay in de-scoping of the unavailable project land has been witnessed in many of the ongoing HAM road projects.

The rating of DRIPL further derives comfort from the established track record of its sponsor and engineering, procurement, and construction (EPC) contractor i.e., Dineshchandra Agrawal Infracon Private Limited (DRAIPL; rated 'CARE AA-; Stable / CARE A1+') in executing large sized road projects which is evident from the ahead of schedule completion for many of its HAM projects. Furthermore, the rating takes into account credit quality of the project completion milestone payments and underlying annuity receivables from National Highways Authority of India (NHAI; rated 'CARE AAA; Stable') both during construction and 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 working capital reserve account post commencement of operations, relatively lower debt levels as against bid project cost leading to adequate debt coverage indicators along with shortfall undertaking extended by the sponsor to fund any shortfall during the construction as well as operational period.

The above rating strengths are, however, tempered by the inherent construction risk elevated by structurally complex scope of work including construction of twin tube tunnel, interest rate risk as well as operations and maintenance (O&M) risk.

Rating sensitivities

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

- Completion of project within scheduled project completion date.
- Establishment of track record of timely receipt of annuities post commencement of operations

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

- Significant delay in the project progress impacting commercial operations date (COD) beyond 90 days from scheduled commercial operations date (SCOD).
- Deterioration in DSCR below 1.20 times due to increase in O&M expenses or annuity deductions, if any.
- Non-receipt of timely need-based support from the sponsor during the construction and operational period.
- Deterioration in the credit profile of sponsor i.e., DRAIPL or counter party i.e., NHAI.

Detailed description of the key rating drivers

Key rating strengths

Favorable 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 definitions of the ratings assigned are available at www.careedge.in and in 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. The RoW available for DRIPL is 99%.

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 advances on bid project cost (BPC) at bank rate. Further, 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 MCLR linked interest annuity: Besides the construction milestone payments during construction, 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 MCLR plus 1.25% on reducing balance and inflation indexed O&M annuity. Non-linear transmission of MCLR over lending rate is reduced to a large extent and is not expected to impact the company's debt coverage indicators.

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.

Wide experience of promoters in the industry with demonstrated execution capabilities: DRAIPL, under the able leadership of Mr. Dineshchandra Agrawal and Mr. Jagdishchandra Agrawal has established sound track record in road and bridge construction over several years. Further, Mr. Hardik Agrawal, son of Dineshchandra Agrawal and MR. Ankit Agrawal, son of Mr. Jagdish Agrawal are actively involved in the day-today activities with more than 5 years of experience in the business. DRAIPL's clientele includes various government departments like Ministry of Road Transport and Highways (MoRTH), National Highways Authority of India (NHAI), Indian Railways, Madhya Pradesh Road Development Corporation (MPRDC) Limited etc. DRAIPL has achieved provisional commercial operations date (COD) for three HAM projects well before scheduled commercial operations date (SCOD) which substantiates its execution capability.

Key rating weaknesses

Inherent execution risk elevated by structurally complex nature of project: DRIPL is exposed to inherent construction risk attached to HAM road projects. The company has received the appointed date on September 30, 2022 and currently, 99% RoW is available on lengthwise basis. The project is comparatively complex with construction of twin tunnel with approach roads on both sides, however, demonstrated execution capability of the sponsor i.e., DRAIPL mitigates the risk partially. The project has achieved physical progress of 5.02% till November 2022 and has also achieved first payment milestone payment from NHAI. DRIPL has entered into fixed price EPC contract with DRAIPL for the execution of project who has demonstrated its execution capacity by completing its projects ahead of schedule.

Inherent O&M risk associated with the project: 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. Flexible pavement is prone to more wear and tear than rigid pavement. However, DRIPL is expected to enter into fixed price O&M contract and MM contract with the sponsor DRAIPL which is expected to mitigate the O&M risk to an extent. As per the terms of the sanctioned facility, O&M expenses till the receipt of first annuity are a part of total project cost which provides comfort in case of delay in receipt of annuity. Furthermore, the sponsor has extended undertaking to infuse funds in case of higher than envisaged O&M and Major Maintenance (MM) expense which also provides additional comfort.

Inherent interest rate risk: DRIPL is exposed to inherent interest rate risk. The project debt is sanctioned with a floating MCLR linked rate of interest which is reset periodically. The risk is mitigated to a large extent on account of receipt of the interest annuity at the applicable 'average one-year MCLR of top 5 scheduled banks + 125 bps' however, DRIPL remains exposed to interest rate risk owing to the timing difference between change in the MCLR rate & lending rate.

Liquidity: Adequate
DRIPL's liquidity is underpinned from the fact that it has access to timely need-based support from DRAIPL. Furthermore, DRAIPL has extended undertaking to fund any cost overrun, funding of O&M and MM expenses along with the shortfall in the debt servicing of DRIPL in case of delayed payment or non-payment or shortfall in annuity payments for any reason whatsoever. Also, as per the terms of sanction of the project debt, DRIPL shall create and maintain DSRA equivalent to the ensuing six months principal and six months interest obligations after meeting the debt service obligations during the operational phase which provides cushion for the debt servicing. Furthermore, there is also provision of maintenance of working capital reserve for an amount equal to six months interest payment and O&M expense which shall be used for interest servicing and O&M payments which is expected to provide liquidity cushion to DRIPL.

Analytical approach

Standalone while factoring execution track record of EPC contractor along with sponsor support undertakings extended by DRAIPL.

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Project stage companies
Hybrid Annuity Model based road projects
Policy on Withdrawal of Ratings

About the company

DRA Rameshwaram Infra Private Limited (DRIPL), a special purpose vehicle (SPV) incorporated and owned by Dineshchandra R. Agrawal Infracon Private Limited [DRAIPL; rated 'CARE AA-; Stable / CARE A1+'] has entered into 17 year concession agreement (CA) (including construction period of 730 days from appointed date) with National Highways Authority of India (NHAI, rated 'CARE AAA; Stable') for the design, build, operate and transfer (DBOT) of 4 km road (tunnel project) on hybrid annuity model basis (HAM).
The project under consideration aims at development (twin tunnel project) of six lane of Baraja - Kandili Section of NH-130-CD Road from Km 338+500 to Km 342+500 Under Raipur-Visakhapatnam Economic Corridor in the state of Odisha. The bid project cost for the project is Rs. 618.10 crore and the total estimated project completion cost is Rs. 578.96 crore to be funded through construction grant from NHAI of Rs. 247.24 crore (excluding inflation), debt of Rs. 265.38 crore and balance through promoter's contribution. The project received Appointed Date on September 30, 2022.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	9MFY23 (UA)
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

A: Audited; UA: Unaudited; NA: Not Applicable as the DRIPL is a project stage entity.

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
Non-fund-based - LT-Bank Guarantee		-	-	-	19.00	CARE A; Stable
Term Loan-Long Term		-	-	30/04/2038	265.38	CARE A; 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	Term Loan-Long Term	LT	265.38	CARE A; Stable				
2	Non-fund-based - LT-Bank Guarantee	LT	19.00	CARE A; Stable				

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 the 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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