

## GR Akkalkot Solapur Highway Private Limited

November 19, 2021

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities-Senior	164.24	CARE AAA; Stable (Triple A; Outlook: Stable )	Assigned
Long Term Bank Facilities-Subordinate	18.00	CARE AAA; Stable (Triple A; Outlook: Stable )	Assigned
<b>Total Bank Facilities</b>	<b>182.24</b> <b>(Rs. One Hundred Eighty-Two Crore and Twenty-Four Lakhs Only)</b>		
Non Convertible Debentures-Senior	158.00	CARE AAA; Stable (Triple A; Outlook: Stable )	Assigned
Non Convertible Debentures-Subordinate	17.00	CARE AAA; Stable (Triple A; Outlook: Stable )	Assigned
<b>Total Long Term Instruments</b>	<b>175.00</b> <b>(Rs. One Hundred Seventy-Five Crore Only)</b>		

*Details of instruments/facilities in Annexure-1*

*Company is in the process of refinancing its existing debt of Rs.322.24 crore through raising of NCD of Rs.175 crore and term debt of Rs.182.24 crore. The existing loan shall be repaid through refinanced debt and hence at no point in time the total outstanding debt would exceed Rs.357.24 crore.*

### Detailed Rationale & Key Rating Drivers

The rating assigned to the proposed long term bank facilities and instruments of GR Akkalkot Solapur Highway Private Limited (GASHPL) takes into consideration the receipt of provisional commercial operations date (PCOD) for partial length of the project stretch during March 2021 and timely receipt of first full construction as well as interest annuities from National Highways Authority of India Limited (NHAI; rated CARE AAA; Stable) while de-linking the balance work. Rating also factors in the achievement of considerable physical progress of 92.08% with balance pending completion cost of Rs.58 crore as on October 31, 2021. Residual construction risk and its likely impact on cash flow in the form of annuity deduction or descoping is largely mitigated by i) presence of debt resizing clause in case of descoping ii) availability of liquidity in the form of fixed deposits receipts (FDR) towards balance works iii) handover of majority of balance right of way (RoW) in October 2021 and iv) demonstrated execution capability of EPC cum Sponsor- GR Infraprojects Ltd (rated CARE AA; Stable/ CARE A1+). While no major descoping of the pending work is envisaged by the company, CARE Ratings believes that debt coverage indicators are expected to remain healthy even upon assuming higher descoping. Further, the interest rate risk is expected to be substantially offset given the stability of the cash flow due to repo rate linked structure for proposed refinanced debt.

The rating also factors favourably GASHPL's low project leverage and minimal counterparty credit risk associated with NHAI as an annuity provider. Various liquidity support mechanisms like cash trap, debt service reserve account (DSRA) equivalent to six months of debt servicing requirements, creation of major maintenance reserve account (MMRA) and the inherent strengths of hybrid annuity model (HAM) are other credit positives for GASHPL. Rating also takes note of the management's articulation of availing top-up loan of Rs.35 crore only upon achievement of substantial project progress over 95% physical progress (excluding descoping) to aid liquidity of GASHPL in the near term.

The above rating strengths are partially offset by inherent operation & maintenance (O&M) and major maintenance (MM) risk associated with the project and right to reset the interest rate spread with lenders after every four years. Nevertheless, proposed structural features in the form of major maintenance reserve account (MMRA) combined with adequate assumptions are expected to impart cash flow resilience to GASHPL to an extent.

The rating also takes 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, strong credit profile of counterparty, adequate project leverage and timely receipt of annuity mitigates the aforementioned refinancing risk to a large extent.

### Key rating Sensitivities

#### Negative Factors

- Deterioration in the credit profile of authority (i.e. NHAI).
- Non-adherence to proposed debt structure

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

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

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### Receipt of provisional COD on partial length and mitigation of residual construction risk to a large extent

GASHPL has received provisional COD on March 31, 2021 for the completed length of 27.650 Km (70.98%) of the total project length of 38.952 Km. PCOD was granted on the work completed on land made available to the company till December 31, 2019. Physical progress of the project stood at 81.95% at the time of PCOD.

Of the pending handover of the land, majority of the land has been handed over till October 2021 while 1.060 Km is pending to be handover and is expected to be given by end of November 2021. Physical progress of the project stood at 92.08% till October 31, 2021 with pending construction cost of Rs.58 crore against which company has lien marked FDR's of equivalent amount. Furthermore, in case of descoping of project scope, debt resizing shall be done in such a way that DSCR shall maintain minimum 1.20 times with tail period of two annuities as per proposed loan covenants. This is expected to protect the liquidity and debt coverage indicators of GASHPL. GRIL's strong execution capability also mitigates the residual construction risk to a considerable extent. GASHPL does not envisage major descoping; however, debt coverage indicators are expected to remain robust despite assuming higher quantum of descoping and consequent one-time annuity deduction mainly due to debt resizing clause. Company expects the project execution to be completed before release of the second annuity (i.e. April 2022).

##### Timely receipt of first annuity

GASHPL has received first annuity during October 2021 on completion cost of Rs.905.15 crore. Despite COD on partial length, the construction annuity as well as interest annuity has been received in full while O&M annuity is received on proportionate basis of length for which PCOD is received.

##### Expected strong debt coverage indicators post refinancing and mitigation of interest rate risk to a larger extent

GASHPL is in the process to refinance its existing term debt through debt of Rs.182.24 crore and NCD of Rs.175 crore. The incremental top-up loan of Rs.35.00 crore shall remain subordinated to the senior debt and shall be utilized towards retirement of the unsecured loans infused by GRIL as a part of the project cost. The management has articulated that top-up loan shall be availed post achievement of substantial completion of over 95% physical progress (excluding descoping) aiding liquidity of GASHPL.

The proposed debt shall be linked with repo rate with fixed spread for first four years and reset clause at the end of every four years thereafter. Given the stability of the cash flow due to repo rate linked structure for proposed debt, interest rate risk is expected to be substantially mitigated. Consequently the debt coverage indicators post refinancing are likely to remain healthy on consistent basis. The refinanced debt shall have a tail period of 11 months leaving two semi-annuities.

##### Assured cash flow due to annuity nature of the revenue stream linked to inflation-indexed BPC as well as O&M annuity and bank rate linked interest annuity

During the operational phase, cash flow in HAM based projects is assured in the form of annuity payments from 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 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. GASHPL has received all the construction grants from NHAI and three semi annuities without any delays or deduction.

#### Key Rating Weaknesses

##### Inherent O&M risk associated with the project

Although receipt of inflation-indexed O&M annuity partly mitigates O&M risk, GASHPL is still exposed to risk of any sharp increase in the O&M cost due to more than envisaged wear and tear. However, project stretch being rigid pavement is less prone to wear and tear as compared to the flexible pavement. CARE Ratings notes that O&M as well as major maintenance assumptions of GASHPL are relatively lower as compared to its peers and 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 O&M and major maintenance outgo in line with its industry aggregates for similar projects and has found the coverage indicators comfortable.

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

#### **Put option in proposed debt**

The proposed 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, strong credit profile of counterparty, adequate project leverage and timely receipt of annuity mitigates the aforementioned refinancing risk to a large extent.

#### **Liquidity Analysis: Strong**

GASHPL is envisaged to generate healthy cash flows backed by a steady revenue stream in form of annuity payments throughout the tenor 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 November 09, 2021 GASHPL has created funded DSRA equivalent to six months of debt servicing obligations amounting to Rs.22.00 crore as per sanctioned condition. The DSRA reserve shall continue post refinancing of the debt. Furthermore, favorable restricted payment covenants linked to maintenance of stipulated DSCR, over and above DSRA and MMRA is expected to provide cash flow cushion.

**Analytical approach:** Standalone

#### **Applicable Criteria**

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

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

[Financial Ratios – Non Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology – Hybrid Annuity Road Projects](#)

#### **About the Company**

GASHPL, a special purpose vehicle (SPV) incorporated and owned by G R Infraprojects Limited [GRIL; rated 'CARE AA; Stable/CARE A1+'] has entered into 17 year concession agreement (CA) (including construction period of 730 days from appointed date) with NHAI, for four laning of 38.952 km rigid pavement road on design, build, finance, operate and transfer (DBFOT) Hybrid Annuity basis. GASHPL has achieved PCOD on March 31, 2021 for 27.650 Km of the project length i.e. 70.98% of 38.952 Km.

#### **Brief Financials:**

Brief Financials - Standalone (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	317.00	277.42
PBILDT	24.41	19.53
PAT	13.05	2.87
Overall gearing (times)	4.33	10.32
Interest coverage (times)	3.60	1.23

A: Audited

Note: Financials are as per IND-AS, where in it has recognized 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 last three years:** Please refer Annexure-2

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

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

**Bank lender details:** Annexure-5

**Annexure-1: Details of 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*	-	-	-	164.24	CARE AAA; Stable
Fund-based - LT-Term Loan*	-	-	-	18.00	CARE AAA; Stable
Debentures-Non Convertible Debentures*	-	-	-	158.00	CARE AAA; Stable
Debentures-Non Convertible Debentures*	-	-	-	17.00	CARE AAA; Stable

\*bank facilities are not yet availed and NCDs are not placed

**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	334.00	CARE A; Stable	-	1)CARE A; Stable (01-Oct-20) 2)CARE A; Stable (01-Sep-20)	1)CARE A; Stable (28-Jun-19)	1)CARE A; Stable (21-Jan-19) 2)Provisional CARE A; Stable (16-Nov-18)
2	Non-fund-based - LT-Bank Guarantees	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	158.00	CARE AAA; Stable				
4	Fund-based - LT-Term Loan	LT	164.24	CARE AAA; Stable				
5	Debentures-Non Convertible Debentures	LT	17.00	CARE AAA; Stable				
6	Fund-based - LT-Term Loan	LT	18.00	CARE AAA; Stable				

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

Name of the Instrument	Detailed explanation
A. Financial Covenants	
1. DSRA equivalent to 6 months debt servicing shall be created upfront before first disbursement and shall be topped up periodically on continual basis from project cash flows.	-
2. Major maintenance reserve account to be created and maintained as per the stipulation	-
3. 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 option to seek redemption, shall at least 90 days prior to relevant put date, issue a notice to issuer to redeem relevant outstanding debentures on Put date.	-
4. In case of any downward change in the scope of the project, debt shall be resized to maintain minimum DSCR of 1.20 times and tail period of 2 annuities.	

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Debentures-Non Convertible Debentures	Complex

**Annexure 5: Bank Lender Details**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

## Contact us

### Media Contact

Mr. Mradul Mishra  
Contact no.: +91-22-6837 4424  
Email ID: [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### Analyst Contact

Mr. Maulesh Desai  
Contact no.: +91-79-4026 5605  
Email ID - [maulesh.desai@careratings.com](mailto:maulesh.desai@careratings.com)

### Relationship Contact

Mr. Deepak Prajapati  
Contact No.: +91-79-4026 5656  
Email ID: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)

### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

### Disclaimer

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**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**