

Agrawal Infrabuild Expressways Private Limited

July 23, 2024

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	339.85	CARE BBB-; Stable	Assigned

Details of facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Agrawal Infrabuild Expressways Private Limited (AIEPL) factors in the inherent strengths of Hybrid Annuity Model (HAM) based road projects such as (i) low project funding risk with 40% of bid project cost available as grant from National Highways Authority of India (NHAI; rated 'CARE AAA; Stable') during construction period, inflation-indexed construction annuities to be received post Commercial Operations Date (COD) 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 Funds Lending Rate (MCLR) linked interest annuities.

The rating further derives comfort from demonstrated execution capability of the sponsor, i.e. Agrawal Infrabuild Private Limited (AIPL) in executing road construction projects and low counterparty credit risk for the underlying annuities receivable from NHAI post commencement of operations. The rating also takes cognizance of achievement of financial closure for project debt, moderate project leverage, Right of Way (RoW) availability of 85% of total project stretch and upfront promoter's contribution of 60%. The rating also factors available liquidity support mechanism such as extension of corporate guarantee and sponsor support undertaking for the project debt and meeting cost overrun during the construction period and proposed creation of debt service reserve account (DSRA) and Major Maintenance Reserve Account (MMRA) post commencement of operations.

The above rating strengths are, however, constrained by inherent project execution risk considering nascent stage of project execution, interest rate fluctuation risk and O&M and major maintenance (MM) risk associated with the project during the operational phase considering flexible pavement structure for the project stretch. The rating also factors in modest financial risk profile of the sponsor with modest order book position translating into lower revenue visibility.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Completion of the project within envisaged cost and time parameters.
- Establishment of track record of timely receipt of annuities post commencement of operations without any deductions.
- Significant improvement in the credit risk profile of the sponsor (AIPL)

Negative factors

- Delay in project progress including achievement of project milestone leading to levy of penalty by NHAI.
- Non-receipt of timely need-based support from the sponsor for meeting project cost during construction period and creation of DSRA equivalent to six months of debt servicing post schedule date of commencement of operations (SCOD)/ COD.
- Deterioration in the credit profile of the sponsor – AIPL or counter party (NHAI).

Analytical approach:

Standalone, while factoring the linkages with the parent/sponsor and EPC contractor, i.e. AIPL.

Outlook: Stable

Stable outlook reflects CARE's expectation of satisfactory project progress backed by sponsor's experience in the road construction segment and NHAI's healthy credit risk profile.

Detailed description of the key rating drivers:

Key strengths

Favourable clauses under HAM projects 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 the 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 the concessionaire within 180 days of the appointed date. Further the provisions such as extension of mobilisation advance equivalent to 10% of the bid project cost (BPC), subject to bank guarantee, and construction grants to be received by the concessionaire in 10 instalments

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

which totals to 40% of the bid project cost from NHAI during the construction stage, provides an added advantage during the construction period and ensures less burden towards arranging funds for the project.

Low counterparty credit risk: Incorporated by the Government of India (GoI) under an Act of 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.

Sponsor support undertaking during the construction period: AIPL as sponsor, has extended an undertaking to the lenders to bring in funds pertaining to any cost overrun and shortfall in resources of the company in respect of completion of the construction of the project. The sponsor has also extended an undertaking to meet the entire shortfall, if any, which is any shortfall between the proceeds from the Authority and the outstanding loan of the lender, upon termination. Furthermore, as articulated by the management, in case of any shortfall towards the O&M expense and debt servicing during the operation period, the promoter shall make good the payment. In addition to the above, the sponsor has provided corporate guarantee for the rated term loan and the guarantee is valid until the receipt of the second annuity payment from NHAI post COD.

Demonstrated track record of the sponsor in executing road construction project: AIEPL has entered into an EPC contract with AIPL. The sponsor has a long track record in the execution of road construction projects. The overall functions of AIPL are looked after by Mr. Rupesh Garg (Promoter) and his family members, having total experience of more than three decades in the construction sector.

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: 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.

Key weaknesses

Inherent project execution risk: AIEPL faces the construction risks inherent to an under-construction project. The project has received its appointed date on 15 December 2023 and the company has mobilised resources and started construction. As of May 2024, the company has achieved physical progress of around 8.91% against scheduled physical progress of 17.92%, however, as articulated by the management, the company has achieved around 20% of the physical progress and expects to receive the milestone payment against the same by end of July 2024. The slight delay in the progress against the scheduled timelines was owing to non-availability of adequate fly ash, however the same stands resolved. The main approvals are in place, except for the extraction of soil and labour registration which is expected to be cleared by August end. Timely completion of the project within the scheduled timelines, shall remain a key monitorable.

Inherent O&M risk associated with the 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 against envisaged, poses a risk. The project stretch consists of flexible (bituminous) pavement which is prone to higher O&M cost compared to rigid pavement. Besides, the company could face the risk of a sharp increase in the O&M cost in an event, where the wear and tear on the road is more than the extent envisaged. However, as articulated by the management, in case of any shortfall towards the O&M and MM expense, the promoter shall make good the payment.

Inherent interest rate risk: AIEPL is exposed to interest rate risk since the project debt is sanctioned at a floating rate of interest with a periodical reset. Any adverse movement in the interest rate on project debt without commensurate alignment in the interest annuities shall impact the debt coverage indicators of the company. The present rate of interest on project debt is linked to 1-year MCLR plus 75 bps and the same shall be rationalized by 25 bps post COD.

Liquidity: Adequate

AIEPL's liquidity is adequate characterised by the achievement of financial closure for the project and infusion of funds of Rs.51.20 crore (~60% of the total promoter's commitment) from the sponsor till June 26, 2024. Furthermore, AIEPL's liquidity profile remains adequate from the fact that it has access to the timely need-based financial support from its sponsor AIPL. The sponsor has also extended unconditional and irrevocable guarantee for the debt availed by the SPV till the receipt of second annuity. Furthermore, as per the sanctioned conditions, the company is also required to create and maintain DSRA, equivalent to six months of debt servicing post COD, which would liquidity cushion to the company during the operational phase of the project.

Applicable criteria

[Definition of Default](#)

[Factoring Linkages Parent Sub JV Group](#)

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

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Road Assets-Hybrid Annuity](#)

[Infrastructure Sector Ratings](#)

About the company and industry

Industry classification

Macro-Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport Infrastructure	Road Assets–Toll, Annuity, Hybrid-Annuity

AIEPL, a special purpose vehicle (SPV) promoted by AIPL, has entered into a concession agreement on May 02, 2023, for a period of 17 years (including a construction period of 730 days from appointed date) with NHAI for rehabilitation and upgradation from 4 to 8 laning of Chandikhole -Paradip section of NH-53 (Old NH-5A) from 0.00 Km to 18.00 km in the state of Odisha on design, build, operate and transfer (DBOT) basis under HAM. The total project cost is estimated to be ₹760.40 crore to be funded through term loan of Rs.339.85 crore, NHAI construction grant of Rs 335.59 crores (incl. GST) and balance through promoter contribution.

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

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
Fund-based - LT-Term Loan		-	-	December 2038	339.85	CARE BBB-; 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Term Loan	LT	339.85	CARE BBB-; Stable				

LT: Long term;

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

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

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

Note on the 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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