Vadodara-Kim Expressway Private Limited

October 08, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	863.24 (Reduced from 909.00)	CARE AA+; Stable	Upgraded from CARE AA; Stable

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in the rating assigned to bank facilities of Vadodara Kim Expressway Private Limited (VKEPL) factors in track record of timely receipt of four annuities from National Highways Authority of India (NHAI: rated 'CARE AAA; Stable'), receipt of final COD, and creation of Debt Service Reserve Account (DSRA) of six months debt servicing requirement and stipulated major maintenance reserve account (MMRA).

The rating also favourably factors in low project leverage, leading to strong debt coverage indictors and minimal counterparty credit associated with NHAI as an annuity provider. The rating continues to derive strength from sufficient time gap between annuity due date and repayment date, healthy tail period of two annuities and inherent strengths of the hybrid annuity model (HAM).

Ratings also takes into cognisance of change in ownership structure with completion of stake sale transaction by current sponsors i.e. Patel Infrastructure Limited (rated CARE A-; Stable / CARE A2+) to Actis Roadways Holdings Limited (ARHL) for VKEPL and Darah Jhalawar Highways Private Limited (DJHPL; rated CARE AAA; Stable). Post acquisition by ARHL, the sanction terms have been revised to enable fungibility of cash flows between VKEPL and DJHPL. Accordingly, an inter-company agreement has been entered between VKEPL and DJHPL, which stipulates a trustee monitored mechanism and enables these two Special Purpose Vehicle (SPVs) to utilise surplus lying in their respective escrow for meeting shortfall in debt repayments or reserve creation for each other, to the extent of surplus available in the individual SPVs account. CARE Ratings notes that there is no cross default between VKEPL and DJHPL and deficit in meeting funding requirements of one SPV to another shall not construed as event of default under inter-company agreement or loan agreement of respective SPV.

CARE Ratings takes note of a deduction of ₹22.44 crore by NHAI from the fourth annuity owing to revision in project completion cost. The completion cost has been revised from ₹1977.36 crore to ₹1956.85 crore and hence, relevant payments made in construction period and towards annuities of 1 to 3 have been recovered. As articulated by the management, the matter has been taken up with the authority and erstwhile sponsor. Going forward, timely receipt of annuities without deduction shall remain key rating monitorable.

However, rating strengths are tempered by inherent interest rate risk and the operations and maintenance (O&M) risk. Nevertheless, adequate cost assumptions along with structural features in the form of creation of MMRA are expected to impart cash flow resilience to VKEPL.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Track record of timely receipt of full annuities at revised completion cost.

Negative factors

- Deterioration in the credit profile of authority (i.e., NHAI).
- Significant delays or deductions in annuities resulting in moderation in debt coverage indicators.
- Any adverse movement lowering the average DSCR below 1.20x on sustained basis.
- Significant delay in payment of envisaged Goods and Services Tax (GST) outflow, impacting average DSCR below 1.20x.
- Non adherence to sanction terms.

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

Analytical approach:
Standalone, factoring in presence of intercompany agreement between DJHPL and VKEPL for cash pooling (to the extent of surplus available).

Change in approach: The approach has been revised from earlier standalone, with DJHPL and VKEPL entering trustee administered intercompany agreement for cash flow pooling in lines with change in sanction conditions.

Outlook: Stable

The stable outlook assigned to bank facilities of VEKPL is considering expectation of timely receipt of annuities from NHAI, maintaining healthy debt coverage indicators and maintenance of requisite reserves per the sanctioned terms.

Detailed description of key rating drivers:

Key strengths

Operational nature of the project and track record of receipt of annuities

The project received Provisional Completion Certificate on May 29, 2022, and final COD was received on January 10, 2024. VEKPL has so far received four annuities without major delays. However, in the receipt of fourth annuity, there has been deduction of ~₹22.44 crore towards revision of adjusted bid project cost (Completion cost). The completion cost has been revised from ₹1977.36 crore to ₹1956.85 crore and hence, relevant payments made in construction period and towards initial three annuities have been recovered from fourth annuity. As articulated by the management, the matter has been taken up with the authority and erstwhile sponsor. Going forward, timely receipt of annuities without deductions shall remain key rating monitorable.

Assured cash flow due to annuity nature of revenue stream

In the operational phase, the cash flow in HAM-based projects is assured in the form of annuity payments from the NHAI on a semi-annual basis covering 60% of the project completion cost and 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.

Strong debt coverage indicators with presence of Intercompany Agreement for cash flow fungibility

VEKPL's debt coverage indicators are envisaged to remain strong. Debt to adjusted bid project cost (BPC) stands comfortable at ~44% resulting in strong DSCR throughout the tenor of the debt. The debt has a tail period of ~1 years, leaving two annuities.
Post acquisition by ARHL, sanction terms have been revised to enable fungibility of cash flows between VKEPL and DJHPL. Surplus lying in the escrow of VKEPL and DJHPL can be utilised for meeting shortfall in debt repayments or reserve creation for each other. There is a defined mechanism towards it. Within five business days prior to the date of shortfall, defaulting borrower (where there is a shortfall), shall issue the funding notice. In case defaulting borrower fails to issue a funding notice at least three business days prior to the date of shortfall, security trustee shall be entitled to issue the funding notice. On receipt of such funding notice, within two business days, the non-defaulting borrower shall provide funds from its surplus accounts. In event of failure of the non-defaulting borrower to fund shortfall, relevant escrow bank shall transfer the amount as mentioned in the funding notice. However, the SPVs shall provide support to the extent of availability of surplus. CARE Ratings notes that there are no cross default between VKEPL and DJHPL and deficit in meeting funding requirements of one SPV to another shall not construed as event of default under inter-company agreement or loan agreement of respective SPV.

Impact of change in law account of introduction of GST Act 2017

With annuity payments being brought under the GST regime, in line with the NHAI policy circulars, operational HAM projects will be eligible to receive a Change in Law (CIL) payment on the construction annuity and O&M annuity per the rate approved by the authority and will receive the entire GST on interest annuity. The concessionaire will be responsible for depositing the entire GST levy at applicable rates on all three components, construction, O&M, and interest annuity. Timely receipt of CIL payments from the authority will be crucial from the credit perspective.

Key weaknesses

Inherent O&M risk associated with the project

Although receipt of inflation-indexed O&M annuity partly mitigates O&M risk, DJHPL is still exposed to the risk of sharp increase in O&M costs due to more-than-envisaged wear and tear. However, the project stretch being a rigid pavement is less prone to wear and tear compared to flexible pavements. Post acquisition of project by ARHL, the company entered a 3-year fixed plus variable price O&M contract with a third party.

Inherent interest rate risk

VEKPL 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 considering receipt of interest annuity at applicable 'bank rate plus 3%'. Therefore, VEKPL remains exposed to interest rate risk owing to the difference in the MCLR rate and bank rate and non-linear transmission of change in bank rates to lending rates.

Liquidity: Strong

VEKPL is envisaged to generate adequate cash flows, backed by a steady cash flow stream of annuity payments throughout the term loan tenor. VEKPL has created funded DSRA equivalent to six months of debt and interest servicing per sanctioned terms. Furthermore, favourable restricted payment covenants linked to maintenance of the stipulated DSCR over and above DSRA and MMRA is expected to provide a cash flow cushion. VKEPL has policy to maintain liquidity of six months debt servicing requirements and O&M expenses above DSRA and MMRA.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Infrastructure Sector Ratings
Road Assets-Hybrid Annuity

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Services	Services	Transport infrastructure	Road assets–toll, annuity, hybrid-annuity

VEKPL is a special purpose vehicle (SPV) owned by ARHL. It entered a 17-year concession agreement (CA) (including construction period of 730 days from appointed date) with National Highways Authority of India (NHAI) for the design, build, finance, operate and transfer (DBFOT) of 31.00 km (248.00 lane km) road project on hybrid annuity basis. The project under consideration aims at construction of eight-lane Vadodara Kim Expressway from Km.292.000 to Km.323.000 (Manubar to Sanpa Section of Vadodara Mumbai Expressway) in the state of Gujarat under NHDP Phase - VI on hybrid annuity mode (Phase IA - Package III). Completion cost of the project is ₹1,956.85 crore. The project received PCOD on May 29, 2022, and COD on January 10, 2024.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (P)
Total operating income	319	260
PBILDT	-38	172
PAT	-156	97
Overall gearing (times)	NM	NM
Interest coverage (times)	-0.40	2.16

A: Audited; P: Provisional; NM: Non-meaningful; Note: 'the above results are latest financial results available'

Note: Financials are per IND-AS, wherein it has recognised financial assets per the present value of annuities receivable 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: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Term Loan-Long Term		-	-	31-12-2035	863.24	CARE AA+; Stable

Annexure-2: Rating history for 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	Term Loan-Long Term	LT	-	-	-	1)Withdrawn (04-Aug-23)	1)CARE AA-; Stable (21-Feb-23)	1)CARE A- (CE); Stable (10-Mar-22)
2	Un Supported Rating-Un Supported Rating (Long Term)	LT	-	-	-	-	1)Withdrawn (21-Feb-23)	1)CARE BBB+ (10-Mar-22)
3	Term Loan-Long Term	LT	863.24	CARE AA+; Stable	-	1)CARE AA; Stable (04-Aug-23)	-	-

LT: Long term;

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Term Loan-Long Term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

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