CareEdge RATINGS

Darah Jhalawar Highways Private Limited

October 28, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	464.17 (Enhanced from 450.70)	CARE AAA; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation in the rating assigned to bank facilities of Darah-Jhalawar Highway Private Limited (DJHPL) factors in the track record of timely receipt of five annuities from National Highways Authority of India (NHAI: rated 'CARE AAA; Stable') along with 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 the low project leverage leading to strong debt coverage indictors and minimal counterparty credit associated with NHAI as an annuity provider. Furthermore, the rating continues to derive strength from sufficient time gap between annuity due date and repayment date, healthy tail period of three annuities along with the 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 Patel Infrastructure Limited (rated CARE A-; Stable / CARE A2+) to Actis Roadways Holdings Limited (ARHL) for DJHPL and Vadodara Kim Expressway Private Limited (rated CARE AA+; Stable). ARHL is ultimately owned by 'Actis Long Life Infrastructure Fund -II'. Post acquisition by ARHL, the sanction terms have been revised to enable fungibility of cash flows between DJHPL and VKEPL. Accordingly, an inter-company agreement has been entered between VKEPL and DJHPL which stipulates a trustee monitored mechanism and enables Special Purpose Vehicle (SPV) to utilise the surplus lying in their respective escrow for meeting any shortfall in debt repayments or reserve creation for each other, to the extent of surplus available in the individual SPVs account. CARE Ratings Limited (CARE Ratings) notes 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.

The above rating strengths are, however, tempered by inherent interest rate risk as well as 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 PDJHPL.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Not applicable

Negative factors

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

Analytical approach:

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

Outlook: Stable

The stable outlook assigned to the bank facilities of DJHPL is on account of expectation of timely receipt of annuities from NHAI, thereby maintaining healthy debt coverage indicators along with maintenance of requisite reserves as per the sanctioned terms.

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

Detailed description of key rating drivers:

Key Strengths

Operational nature of the project along with track record of receipt of annuities

The project received provisional completion certificate (PCC-1) on January 31, 2022, and final commercial operations date (COD) was received on July 31, 2023. VEKPL has so far received four annuities without any major delay. The project has a track record of receipt of five annuities. There was a deduction from 1st and 2nd annuity owing to delay in work completion as agreed upon in the settlement agreement, however, subsequent three annuities have been received without any deduction. Part of the funds deducted from 1st and 2nd annuity have been released, while DJHPPL is contesting for release of balance funds. CARE Ratings notes debt coverage indicators are expected to remain strong even without release of balance funds.

Assured cash flow due to annuity nature of the revenue stream

During the operational phase, 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 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 Act of the Parliament as a statutory body, NHAI functions as the nodal agency for development, maintenance and management of national highways in the country. The outlook on NHAI reflects the outlook on 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

The debt coverage indicators of DJHPL are envisaged to remain strong. Debt to adjusted bid project cost (BPC) stands comfortable at ~41% resulting in strong DSCR throughout the tenor of the debt. The debt has a tail period of ~1.5 years, leaving three annuities.

Post acquisition by ARHL, sanction terms have been revised to enable fungibility of cash flows between VKEPL and DJHPL. Surplus lying in escrow of VKEPL and DJHPPL can be utilised for meeting any shortfall in debt repayments or reserve creation for each other. Furthermore, there is a defined mechanism towards the same. Within five business days prior to the date of shortfall, the defaulting borrower (wherein there is a shortfall), shall issue the funding notice. In case the defaulting borrower fails to issue a funding notice at least three business days prior to the date of shortfall, the security trustee shall be entitled to issue the funding notice. Upon 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 the shortfall, the relevant escrow bank shall transfer the amount as mentioned in the funding notice. However, SPVs shall provide support to the extent of availability of surplus. CARE Ratings notes 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 authority and will receive the entire GST on interest annuity. Concessionaire will be responsible for depositing the entire GST levy at applicable rates on three components, i.e., construction, O&M, and interest annuity. The 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 the receipt of inflation-indexed O&M annuity partly mitigates the O&M risk, DJHPL is still exposed to the risk of any sharp increase in the O&M cost due to more-than-envisaged wear and tear. However, the project stretch being a rigid pavement is less prone to wear and tear as compared to flexible pavements. Post acquisition of project by ARHL, the company entered a 3-year fixed plus variable price O&M contract with the third party which mitigates the risk to a certain extent.

Inherent interest rate risk

DJHPL is exposed to the 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 'bank rate plus 3%'. Therefore, DJHPL remains exposed to the interest rate risk owing to difference in MCLR rate and bank rate and non-linear transmission of change in bank rates to lending rates.

Liquidity: Strong

DJHPL is envisaged to generate adequate cash flows, backed by a steady cash flow stream of annuity payments throughout the tenor of the term loan. DJHPL created funded DSRA equivalent to six months of debt and interest servicing amounting to ₹34 crore as per the sanctioned terms and has free cash and bank balance of ₹6 crore as on June 30, 2024. Furthermore, favourable restricted payment covenants linked to the maintenance of stipulated DSCR over and above DSRA and MMRA is expected to provide a cash flow cushion. Moreover, DJHPL has policy to maintain liquidity of six months debt servicing requirements and O&M expenses over and 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
Hybrid Annuity based road Projects

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Services	Services	Transport Infrastructure	Road Assets–Toll, Annuity, Hybrid-Annuity

PDJHPL, a special purpose vehicle (SPV) owned by ARHL has entered into 17.5 years CA (including construction period of 910 days from appointed date) with NHAI for the design, build, operate and transfer (DBOT) of 48.88 km road on hybrid annuity basis. The project under consideration aims at upgrading to four lane of NH-12 from Km 299.00 to km 346.54 (approximate length of 48.88 km) Darah-Jhalawar-Teendhar Section of Rajasthan. The project completion cost of ₹1,123.63 crore is to be funded through construction grant from NHAI of ₹449.45 crore, debt of ₹539.35 crore and balance through promoter's contribution. The project achieved final provisional completion certificate (PCC)-1 w.e.f. January 31, 2022 and PCC-2 w.e.f. June 08, 2022 and final COD w.e.f. July 31, 2023.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (P)
Total operating income	NA	108.81
PBILDT	NA	98.40
PAT	NA	32.32
Overall gearing (times)	NA	11.61
Interest coverage (times)	NA	1.92

A: Audited P: Provisional; NA: Not applicable. Note: these are latest available financial results

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		-	-	31/08/2035	464.17	CARE AAA; 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	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (08-Nov-23)	1)CARE A; Stable (27-Mar-23)	1)CARE A- (CE); Stable (10-Mar-22)
2	Un Supported Rating-Un Supported Rating (Long Term)	LT	-	-	-	-	1)Withdrawn (27-Mar-23)	1)CARE BBB+ (10-Mar-22)
3	Term Loan-Long Term	LT	464.17	CARE AAA; Stable	1)CARE AAA; Stable (30-Sep-24)	1)CARE AA; Stable (03-Jan-24)	-	-

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 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:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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