# Amritsar Ghoman Highways Private Limited

October 09, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 315.00 | CARE BBB-; Stable | Downgraded from CARE BBB; Stable |

Details of instruments/facilities in Annexure-1.

## Rationale and key rating drivers

The revision in the rating assigned to the long-term bank facilities of Amritsar Ghoman Highways Private Limited (AGHPL) is on account of delay in project progress owing to non-availability of right of way (RoW) and utility shifting along with moderation in the credit profile of the sponsor, Chetak Enterprises Limited (CEL; rated 'CARE BBB; Stable/CARE A3+').

The rating continues to factor in the inherent strengths of the hybrid annuity model (HAM)-based road projects and the established track record of its sponsor and engineering, procurement and construction (EPC) contractor, i.e., CEL, in executing large-sized road projects, albeit with moderation in the credit profile of the sponsor. Moreover, the rating continues to take into account the strong credit quality of the underlying annuity receivables from the National Highways Authority of India (NHAI; rated 'CARE AAA; Stable') post commencement of operations; the proposed liquidity support mechanisms such as the envisaged creation of a debt service reserve account (DSRA), major maintenance reserve account (MMRA) and operations and maintenance (O&M) reserve account (O&MRA) on commissioning, and the sponsor undertaking to fund any shortfall during the construction as well as operational periods.

The rating strengths are, however, tempered by the project execution challenges elevated by the unavailability of contiguous RoW, inherent O&M risk, and interest rate risk due to the linkage of interest annuities to the marginal cost of funds based lending rate (MCLR).

## Rating sensitivities: Factors likely to lead to rating actions

**Positive Factors:**

- Improvement in the credit profile of CEL and traction in project progress of AGHPL

**Negative Factors:**

- Deterioration in credit profile of CEL
- Delay in delinking or descoping of unavailable workfront leading to continued delay in project progress
- Adverse movement in the interest rate and O&M cost leading to DSCR falling below unity

## Analytical approach:

Standalone while factoring execution track record of EPC contractor along with sponsor support undertaking to meet any shortfall in debt servicing during construction as well as operational phase. The sponsor - CEL has extended partial tenor corporate guarantee till the receipt of first annuity.

**Outlook:** Stable

AGHPL's stable business profile is underpinned by the favourable features of HAM, sponsor support undertakings, and the presence of a strong counterparty, i.e., the NHAI.

## Detailed description of key rating drivers

## Key strengths

**Favourable clauses in the model concession agreement (CA) of HAM projects for addressing execution challenges**

The model CA of HAM projects include favourable clauses such as the achievement of at least 80% RoW before declaring the appointed date for the project and the 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 that were plaguing the sector primarily on account of delays in land acquisition during the construction phase. However, the pending de-scoping of unavailable land despite significant time having lapsed from the appointed date has been affecting the 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, the timely de-scoping of unavailable project land within 180 days from the appointed date as per the terms of the CA will be a key monitorable for HAM-based road projects. However, during July 2020, the NHAI

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

released standard operating procedures (SOP) pertaining to the approach towards de-scoping, whereby, immediately after the expiry of the period of the appointed date plus 20% of the construction period, the pending RoW will be removed from the scope of work and the bid project cost (BPC) will be suitably reviewed. The implementation of the same, if necessary, will remain crucial for AGHPL.

**Low funding risk and permitted price escalation**
The HAM model entails lower sponsor contribution during the construction period considering 40% construction support from the authority, and the availability of 10% mobilisation advances on the BPC at MCLR-linked interest rate. Furthermore, the BPC and O&M costs will be inflation-indexed (through a price index multiple [PIM]), which is the weighted average of the wholesale price index (WPI) and consumer price index (CPI) in the ratio of 70:30, which protects the developers against price escalation to an extent.

**Assured cash flow 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 a semi-annual basis covering 60% of the project completion cost along with interest at MCLR of the top five scheduled commercial bank + 1.25% 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, the NHAI functions as the nodal agency for the development, maintenance, and management of the national highways in the country. The outlook on the NHAI reflects the outlook on the sovereign, whose direct and indirect support continues to be the key rating driver.

**Wide experience of the sponsor in road construction, albeit with moderation in the credit profile of CEL**
CEL has experience of successfully operating and maintaining build-operate-transfer (BOT) road projects for over two decades. CEL demonstrated its project execution capabilities in these projects with commencement of toll revenue aligned with the original schedule. There has been moderation in CEL's credit profile considering the lower-than-envisaged scale of operations during FY24, with 21% y-o-y degrowth in the total operating income (TOI), the slow pace of execution of existing projects, and the muted order inflow.

**Proposed creation of DSRA and MMRA**
As per the sanctioned terms of the debt, AGHPL will be required to create and maintain a DSRA until the tenor of the debt to meet any shortfall in the debt service requirements. The DSRA will be created in funded form, equivalent to the ensuing six months principal and interest obligations from the receipt of the first two annuities. As per the sanctioned terms of the debt, an MMRA will also be created and maintained by AGHPL throughout the tenure of the debt. Also, comfort can be derived from the interest and O&M expenditure for the first six months post COD being part of the project cost.

**Interest annuities linked to MCLR, mitigating the interest rate risk to a large extent**
Both the interest annuities and the interest on debt are linked to the MCLR. Interest annuities are linked to one-year average MCLR of the top five scheduled commercial banks and the interest on term loan is also linked to the MCLR, which mitigates the interest rate risk to a large extent.

## Key weaknesses

**Inherent project execution risk**
AGHPL is exposed to inherent construction risk attached to the design-build-operate-transfer (DBOT) road projects. The project stretch is to be constructed with flexible pavement and the scope of work includes construction of toll plazas, roadside furniture, pedestrian facilities, truck lay-bys, bus-bays, and bus shelters, etc. The appointed date was declared on June 22, 2022. Financial closure has also been achieved and the project will be funded through term debt of ₹315 crore, equity of ₹92.72 crore, and NHAI grant of ₹294 crore. Notably, 50% equity is to be funded upfront before the disbursement of term debt.
The project currently has RoW of 83% which, however, is not entirely hinderance free. The project has achieved physical progress of 32.16% up to June 30, 2024, which is behind the schedule, as against the revised scheduled project progress. The company applied for an extension of time (EOT), which has been approved by the Project Director (PD), NHAI thereby shifting the SCOD to March 13, 2025, and subsequently, lenders shifting the repayment schedule. Consequently, the first milestone was achieved on March 31, 2023, within the approved interim EOT. However, the second milestone, which was due on December 31, 2023, as per revised schedule has not yet been achieved. Timely receipt of final EOT approval from NHAI shall remain crucial from credit perspective.

**Inherent O&M risk**
Although inflation-indexed O&M annuity partly mitigates O&M risk, developers will still face the risk of sharp increase in O&M cost due to more-than-envisaged wear and tear and aggressive bidding in O&M cost. O&M and major maintenance cost assumed by the company is relatively lower than other similar projects rated by CARE Ratings.
However, AGHPL will enter into a fixed-price O&M contract before the achievement of COD, mitigating the O&M risk to an extent. Also, as per the sanctioned terms, AGHPL is required to create and maintain an MMRA out of the project cash flow to conduct major maintenance of the stretch. Also, CEL has extended the undertaking to infuse funds in case the O&M and major maintenance expenses exceed the base case plan submitted to lenders.

**Inherent interest rate risk**
AGHPL 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 largely mitigated, considering receipt of interest annuity at the applicable 'average one-year MCLR of top 5 scheduled banks + 125 bps'. However, DDHPL remains exposed to interest rate risk owing to timing difference between change in MCLR rate and lending rate.

**Liquidity**: Adequate
AGHPL's liquidity is underpinned by the fact that it has access to timely need-based support from CEL. Furthermore, in line with sanction terms, CEL has extended undertaking to fund cost overrun, funding of shortfall in AGHPL's debt servicing in case of delayed payment or non-payment or shortfall in annuity payments for reason whatsoever. Also, per the terms of sanction of project debt, AGHPL shall create and maintain DSRA equivalent to the ensuing six months principal and six months interest obligations after meeting debt service obligations in the operational phase which provides cushion for debt servicing.

**Assumptions/Covenants:** Not applicable

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

## 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

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

AGHPL was incorporated on April 22, 2021, as a special purpose vehicle (SPV) by CEL. AGHPL has entered into a CA of 17 years including a construction period of two years with the NHAI for the four-laning of the existing two-lane road of the Amritsar-Ghoman-Tanda-Una section of NH-503A road from design chainage 8+270 to design chainage 54+000 (design length: 45.73 km) in the state of Punjab on HAM basis. The CA was signed on August 12, 2021, at a BPC of ₹735 crore and an estimated project cost of ₹701.72 crore, which will be funded through term debt of ₹315 crore, equity contribution of ₹92.72 crore and NHAI grant of ₹294 crore.

| Brief Financials (₹ crore) | March 31, 2023 (A) | March 31, 2024 (A) | Q1FY25 (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 for the project stage entity. Note: The above results are the latest financial results available.

**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 |
|---|---|---|---|---|---|---|
| Fund-based - LT-Term Loan | | - | - | 20-07-2037 | 315.00 | CARE BBB-; 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 | 315.00 | CARE BBB-; Stable | - | 1)CARE BBB; Stable (10-Aug-23) | 1)CARE BBB+; Stable (27-Jun-22) | - |
| 2 | Un Supported Rating-Un Supported Rating (Long Term) | LT | - | - | - | - | 1)Withdrawn (27-Jun-22) | - |

LT: Long term; ST: Short 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 | Fund-based - LT-Term Loan | Simple |

**Annexure-5: Lender details**

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| 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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