Patel Sethiyahopu Cholapuram Highway Private Limited

January 09, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities^	692.26 (Reduced from 701.28)	CARE A-; Positive	Upgraded from CARE BBB+; Stable

Details of instruments/facilities in Annexure-1.

^ Patel Sethiyahopu-Cholapuram Highway Private Limited (PSCHPL) has refinanced part of it's existing term debt of Rs.451.28 crore (previously rated amount) and has availed a fresh term loan of Rs.479.70 crore. Accordingly, the previously rated term loan of Rs.451.28 crore is withdrawn as there is no outstanding amount towards the said facility and rating to the refinanced debt has been assigned. The existing term loan of Rs.212.56 crore (previously rated: Rs.250 crore) continues as it is.

Rationale and key rating drivers

The revision in the rating assigned to the bank facilities of Patel Sethiyahopu-Cholapuram Highway Private Limited (PSCHPL) considers receipt of Provisional completion certificate -3 (PCC-3) for the completion of 40.140 km (79.52% of length) along with project progress of 92.12% till October 2024. PSCHPL is expected to achieve PCOD on full project length by June 2025 and hence outlook is revised to positive. The rating also takes into consideration, partially operational status of the projects with receipt of five annuities (on proportionate basis in lines with settlement agreement) from the authority along with limited residual project execution risk with 100% availability of Right of Way (RoW)

The rating continues to remain underpinned by inherent strengths of hybrid annuity model (HAM)-based road projects and strong credit quality of underlying annuity received from National Highway Authority of India (NHAI; rated 'CARE AAA; Stable'), proposed liquidity liquidity support mechanisms such as the envisaged creation of debt service reserve account (DSRA). The rating continues to derive strength from established track record of its sponsor and engineering, procurement and construction (EPC) contractor i.e., Patel Infrastructure Limited (PIL; rated 'CARE A-; Stable / CARE A2+') in executing large sized road projects, which has also extended shortfall undertaking to fund any shortfall during the construction as well as the operational period.

The above rating strengths are, however, tempered by residual project completion risk, inherent O&M risk and inherent interest rate risk. The project progress was earlier delayed; however, the independent engineer (IE) had recommended an extension of time (EOT) up to March 31, 2025, final approval of the authority is awaited. Limited cushion of seven days between annuity due date and debt servicing date further constraints the rating.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Achievement of PCC-4 (final completion) as envisaged
- Track record of receipt of annuities in full

Negative factors

- Deterioration in credit profile of authority (i.e., NHAI) and/or sponsor (i.e., PIL)
- Significant delay in project completion beyond revised timelines and levy of damages by NHAI
- Deterioration in DSCR below 1.10 times due to increase in O&M expenses or annuity deductions, if any

Analytical approach: Standalone

Outlook: Positive

The positive outlook is on account of expectation of receipt of PCC-4 (Final Completion) by June 2025 owing to near completion status of the project and timely receipt of annuities subsequently in full along with creation of requisite reserves as per the stipulated terms. The outlook shall be revised to stable in case of delay in achievement of PCOD beyond June 2025.

Detailed description of key rating drivers:

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

Key strengths

Operational status of the project with track record of receipt of annuity and meaningful progress for balance work

The project received PCC-1 w.e.f. December 10, 2021, for completed length of 28.345 km (56.15% length), PCC-2 w.e.f. February 18, 2023, for completed length of 35.240 km (69.81% Length) and PCC-3 w.e.f. March 26, 2024, for the completed length of 40.140 km (79.52% length). Currently, work related to PCC-4 is in progress. PSCHPL achieved physical progress of 92.12% till October 2024. The project was scheduled to be completed by June 30, 2024, however, owing to non-availability of RoW due to encumbrances and encroachments, an EOT till March 31, 2025, has been recommended by IE for completion of balance works. Final approval of authority in this regard is awaited, which shall be key rating monitorable.

PSCHPL has so far received 5 annuities from NHAI, albeit in proportionate basis without any deductions and in lines with the settlement agreement entered into with the authority.

Favourable clauses in model CA of HAM projects to address execution challenges

The model CA of HAM projects include favourable clauses such as achievement of at least 80% RoW before declaring appointed date for the project and 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 plaguing the sector primarily on account of delay in land acquisition during construction phase. The RoW available for PSCHPL is 100% encumbrance free land as on September 30, 2024.

Low counterparty credit risk

Incorporated by the Government of India (GoI) under an Act of 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. NHAI is vested with executive powers for developing national highways in India by the Ministry of Road Transport & Highways (MoRTH). The outlook on the NHAI reflects the outlook on the sovereign, whose direct and indirect support continues to be the key rating driver.

Low funding risk and permitted price escalations

The HAM model entails lower sponsor contribution during the construction period considering 40% construction support from the NHAI and the availability of 10% mobilisation advance on the BPC at MCLR-linked interest rate. Furthermore, the BPC and O&M cost 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 due to the 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, 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 along with interest annuity at 'bank rate plus 3%' on reducing balance and inflation-indexed O&M annuity.

Adequate debt coverage indicators partly offset by moderate cushion between annuity due date and debt servicing date

The project leverage stands moderate by debt/bid project cost of 48%. The company has refinanced its existing term debt and availed a top-up loan of Rs.96.01 crore, with current exposure of the term-loan being at Rs.692.26 crore. The top-up debt has been utilised towards payment to the parent i.e. Patel Infrastructure Limited. However, debt coverage indicators are expected to be adequate due to benefit of inflation indexation on completion cost. Going forward, crystallization of final completion cost post achievement of PCOD on full length is key monitorable.

However, the cushion between the annuity due date and repayment date is low at 7 days. Thus, PSCHPL shall create an additional reserve equivalent to one biannual instalment and one month of interest to mitigate the risk of any delay beyond 7 days in receipt of annuities as per management articulation.

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 and O&M annuity as 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 18% on all the 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. NHAI vide their letter dated May 30, 2024 has released payment on account of additional liability of GST on EPC cost of project. PSCHPL has received a CIL payment of Rs.112 crore.

Demonstrated track record of PIL in executing road projects

The promoter family of PIL is engaged in construction business since last five decades. Over the years, PIL has developed its expertise in the construction of roads, bridges and buildings. PIL has a sound track-record in the execution of projects, with most of the projects being completed within the envisaged time and cost parameters. PSCHPL has entered into fixed price EPC contract with PIL for execution of the project which mitigates cost overrun risk to an extent. Further, PIL (as a sponsor), has extended undertakings to PSCHPL's lenders to fund cost overrun beyond budgeted cost and to fund shortfall in debt servicing during entire tenor of the facility in case of delay or part receipt or non-receipt of annuity during the construction phase and operational phase. The sponsor has supported the debt repayment obligations for PSCHPL in past which have commenced prior to achievement of PCOD. Timely and need based support from the sponsor in case of exigencies during construction and operational phase would be a key rating monitorable.

Key weaknesses

Residual project execution risk

PSCHPL received appointed date on August 16, 2018 and the scheduled project completion date (SPCD) was August 15, 2020. However, the project was delayed significantly due to issues related to hindrances and encroachments on the project stretch, occurrence of unprecedented cyclone 'GAJA', flooding leading to water inundation and submersion of the major part of the project stretch, delay in availability of natural sand and nationwide lockdown due to Covid 19.

Accordingly, to solve the above issues, PSCHPL had entered into a settlement agreement with NHAI in March 2021, wherein both the parties have waived their claims/penalty and a revised timelines were decided to be achieved in three-stage staggered manner with grant of PCC at each stage and project completion by November 13, 2022.

However, the project was still delayed due to non- availability of unencumbered land and PSCHPL has entered into a revised settlement agreement with NHAI in March 2023, wherein both the parties have waived their claims/penalty and revised timelines were decided to be achieved in four staggered manner with grant of PCC at each stage of which PCC-1, 2, and 3 have already been achieved.

Currently, work related to PCC-4 is in progress. The project was scheduled to be completed by June 30, 2024, however, owing to non-availability of RoW due to encumbrances and encroachments, an EOT till March 31, 2025 has been recommended by IE for completion of balance works, final approval of authority is however, awaited.

Inherent O&M risk

Although inflation indexed O&M annuity partly mitigates O&M risk, developers would still face the risk of any sharp increase in the O&M cost due to more than envisaged wear and tear and aggressive bidding in O&M cost. However, PSCHPL has already entered into fixed price and fixed time O&M contract with the sponsor, PIL, before achievement of COD, thereby mitigating the O&M risk to an extent. Further, PIL has extended undertaking to infuse funds in case O&M expenses and major maintenance expenses are higher than envisaged.

Inherent interest rate risk

PSCHPL is exposed to inherent interest rate risk. The project debt is sanctioned with a floating marginal cost of funds-based (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, PSCHPL remains exposed to the interest rate risk owing to the difference in the MCLR rate and bank rate and non-linear transmission of change in the bank rates to lending rates.

Liquidity: Adequate

PSCHPL has strong liquidity position marked by timely receipt of annuities from NHAI under Escrow mechanism. Furthermore, proposed creation of stipulated DSRA equivalent to six Month of debt servicing shall be created in a staggered manner by 8th biannual annuity or on achievement of Final COD from NHAI, whichever is earlier in lines with sanctioned terms. PSCHPL has created partial DSRA to the tune of Rs. 30.68 crore as on November 26, 2024. Creation of MMRA, and an additional reserve equivalent to one biannual instalment and one month of interest will provide liquidity cushion in the future. Free cash and bank balance available as on March 31, 2024 stood at Rs.29.37 crore.

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
Project stage companies
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

PSCHPL, a special purpose vehicle (SPV) incorporated, and majority owned by PIL has entered into 17 year concession agreement (CA) (including construction period of 730 days from appointed date) with NHAI for the design, build, finance, operate and transfer (DBFOT) of 50.480 km (i.e. 201.92 lane km) road project on Hybrid Annuity basis.
The project under consideration aims at four laning of Sethiyahopu – Cholopuram from Km.65.960 to Km. 116.440 section (approx. 50.480 km) of NH-45C in the state of Tamil Nadu under NHDP Phase - VI on Hybrid Annuity Mode. The total cost of the project is Rs.1461.00 crore being funded through debt of Rs.701.28 crore, construction grant from NHAI of Rs.584.40 crore and balance through promoter's contribution amounting to Rs.175.32 crore.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	160.57	173.75
PBILDT	1.03	1.05
PAT	66.20	-27.53
Overall gearing (times)	3.24	4.41
Interest coverage (times)	0.02	0.02

A: Audited; Note: these are latest available financial results
Financials are prepared as per IND-AS, which 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		-	-	15-06-2035	692.26	CARE A-; Positive

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	692.26	CARE A-; Positive	-	1)CARE BBB+; Stable (10-Nov-23) 2)CARE BBB+; Stable (04-Apr-23)	-	1)CARE BBB; Stable (18-Feb-22)

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.

Contact us

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