Amritsar Ghoman Highways Private Limited

June 27, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	315.00	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	Assigned
Total Bank Facilities	**315.00 (₹ Three Hundred Fifteen Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers of Amritsar Ghoman Highways Private Limited (AGHPL)

The rating assigned to the long-term bank facilities of Amritsar Ghoman Highways Private Limited (AGHPL) factors in the inherent strengths of hybrid annuity model (HAM) based road projects such as (i) low project-funding risk with inflation-indexed annuity to be received along with Low credit risk of the Counter party –National Highways Authority of India(NHAI; rated CARE AAA; Stable) (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 MCLR linked interest annuity. However, unlike the clauses contained in the CA, delay in de-scoping of the unavailable project land has been witnessed in some of the ongoing HAM road projects.

The rating also favorably factors in the wide experience of the sponsor- Chetak Enterprises Limited (CEL: rated CARE A; Stable/CARE A1) in the infrastructure space, moderate leverage of the project, various undertakings extended by the sponsor to fund the cost overrun during construction period and funding of incremental operations and maintenance (O&M) expenses and major maintenance (MM) expenses over and above the base case plan. The rating also factors in the envisaged liquidity support mechanisms such as the envisaged creation of debt service reserve account (DSRA) and Major Maintenance Reserve Account (MMRA) post commencement of operations. The rating strengths are however constrained by project execution risk, the inherent Operations & Maintenance (O&M) risk and interest rate risk due to linkage of interest annuities to MCLR.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Successful receipt of final COD with timely receipt of full annuities
- Completion of project within envisaged timelines.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in the credit risk profile of the counterparty(NHAI)
- Delay in receipt of final COD leading to reduced annuities than envisaged thereby adversely impacting the debt coverage indicators.
- Any adverse movement in O&M expenses or interest rate affecting the debt coverage indicators.
- Non-adherence to sanctioned debt terms.

Detailed description of the key rating drivers

Key Rating Strengths

Favourable clauses in model CA of HAM projects for addressing execution challenges

The model CA of HAM projects includes 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 which were plaguing the sector primarily on account of delay in land acquisition during construction phase. However, pending de-scoping of unavailable land despite significant time having lapsed from the appointed date has been affecting the project 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, timely de-scoping of unavailable project land within 180 days from appointed date as per terms of CA will be a key monitorable for HAM-based road projects. However, during July 2020; NHAI released an SOP pertaining to the approach towards de-scoping whereby, immediately after the expiry of the period of appointed date plus 20% of the construction period, the pending RoW will be removed from the scope of work and the BPC shall be suitably reviewed.

Low funding risk and permitted price escalation

HAM model entails lower sponsor contribution during construction period considering 40% construction support from the Authority, and availability of 10% mobilization advances on bid project cost (BPC) at MCLR-linked interest rate. Furthermore, the BPC and O&M costs 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, which protects the developers against price escalation to an extent.

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

Assured cash flow due to annuity 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 (rated 'CARE AAA; Stable') on semi-annual basis covering 60% of the project completion cost along with interest at MCLR of 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, 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. Wide experience of sponsor in road construction.

Wide Experience of sponsor in road construction
CEL has experience of successfully operating and maintaining build-operate and transfer (BOT) road projects for more than two decades. CEL has demonstrated its project execution capabilities in these projects with commencement of toll revenue in line with the original schedule.

Propose creation of DSRA and MMRA
As per the sanction terms of the debt, AGHPL shall be required to create and maintain DSRA till the tenor of the debt to meet any shortfall in the debt service requirements. DSRA shall be created in funded form, equivalent to the ensuing six months principal and six months interest obligations from receipt of first 2 annuities. As per the sanction terms of the debt, Major Maintenance Reserve Account 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 MCLR. Interest annuities are linked to 1-year average MCLR of top five scheduled commercial banks and interest on term loan is also linked to the MCLR which mitigates the interest rate risk to a large extent.

Key Rating Weaknesses
Inherent project execution risk: AGHPL is exposed to inherent construction risk attached to 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. Appointed date was declared on June 22, 2022. Financial closure has also been achieved and the project shall be funded through term debt of Rs.315 crore, equity of Rs.92.72 crore and NHAI grant of Rs.294 crore. 50% equity is to be funded upfront before disbursement of term debt. Demonstrated execution capability of the sponsor mitigates the risk to an extent.

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

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

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. Further, CEL has a sponsor has also extended partial tenor corporate guarantee for the debt availed by AGHPL till the receipt of the first annuity. Post the fall of corporate guarantee on the receipt of first annuity, debt coverage indicators are expected to remain moderate in operational phase due to relatively high leverage and inferior bidding in O&M thus limiting the credit enhancement available from guarantee of CEL.

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)
CARE's Policy on Default Recognition
Rating Methodology – Hybrid Annuity Road Projects
Financial Ratios – Non Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology: Notching by Factoring Linkages in Ratings

About the Company

Amritsar Ghoman Highways Private Limited (AGHPL) was incorporated on April 22, 2021, as a Special Purpose Vehicle (SPV) by Chetak Enterprises Limited (rated CARE A; Stable/CARE A1). AGHPL has entered into a concession agreement of 17 years including construction period of 2 years with the National Highways Authority of India (NHAI, rated CARE AAA; Stable) for four-laning of the existing two lane road of Amritsar-Ghoman-Tanda-Una section of NH-503A road from design Chain. 8+270 to Design Chainage 54+000 (design Length 45.73 km) in the State of Punjab on Hybrid Annuity Mode. The concession agreement was signed on August 12, 2021 at a Bid Project Cost of Rs.735 crore and estimated project cost of Rs.701.72 crore, that shall be funded through term debt of Rs.315 crore, equity contribution of Rs.92.72 crore and NHAI grant of Rs.294 crore.

Brief Financials: Not applicable, 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 for this company: Annexure 4

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		-	-	July, 2037	315.00	CARE BBB+; Stable

Annexure-2: Rating History of 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	315.00	CARE BBB+; Stable				

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities : Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

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

Annexure-5: Bank lender details for this company

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

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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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