DBL Rewa Sidhi Highways Private Limited

September 30, 2021

Rating

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	335.20	**CARE A-; Positive (Single A Minus; Outlook: Positive)**	**Reaffirmed; Outlook revised from Stable**
Total	**335.20 (Rs. Three hundred thirty five crore and twenty lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of DBL Rewa Sidhi Highways Private Limited (DRSHPL) continues to factor the inherent strengths of hybrid annuity model (HAM) based road projects and established track record of its sponsor and engineering, procurement and construction (EPC) contractor i.e. Dilip Buildcon Ltd (DBL; rated 'CARE A; Stable/ CARE A1') in executing large sized road projects. Furthermore, the rating continues to take into account strong credit quality of the underlying annuity receivables from National Highways Authority of India (NHAI, rated 'CARE AAA; Stable') post commencement of operations, proposed liquidity support mechanisms such as the envisaged creation of debt service reserve account (DSRA) and major maintenance reserve account (MMRA) post commencement of operations, relatively lower debt levels as against bid project cost leading to adequate debt coverage indicators and undertaking extended by the sponsor to fund any shortfall during construction as well as operational period.

The above rating strengths are, however, tempered by the inherent construction risk elevated by construction of the twin tube tunnel constituting 72% of the total EPC cost (excluding inflation) which is partly offset by project progressing ahead of schedule, inherent O&M risk post commencement of operations and inherent interest rate risk. The project is progressing ahead of schedule as witnessed by physical progress of 87.47% till August 27, 2021 as against schedule commercial operations date of March 2023.

Rating Sensitivities

Positive Factors

- Completion of the project within envisaged cost and time parameters
- Receipt of first annuity along with creation of stipulated DSRA

Negative Factors

- Significant deterioration in credit profile of sponsor (i.e. DBL)
- Deterioration in credit profile of authority (i.e. NHAI)
- Significant delay in project progress impacting COD beyond 90 days from SPCD other than EOT given for Covid-19 impact

Outlook: Positive

The outlook revision factors in expectations of ahead of schedule completion of project in light of significant progress and availability of adequate right of way (ROW).

Detailed description of the key rating drivers:

Key Rating Strengths

Favourable clauses in model CA of HAM projects to address execution challenges; albeit certain instances of delay in actual de-scoping of the unavailable project land have emerged as a concern for the industry

The model CA of HAM projects includes favorable clauses such as achievement of at least 80% Right of Way (RoW) before declaring an 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 the construction phase. Besides, stringent clauses for levy of damages, encashment of performance security as well as the requirement of additional performance security in case of delay in execution due to reasons attributed to the concessionaire also exert some pressure on the developer for ensuring timely execution. 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. However, during July 2020, NHAI released a standard operating procedure (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 which is expected to ease some concerns.

[1]Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

Low funding risk and permitted price escalation
HAM model entails lower sponsor contribution during construction period considering 40% construction support from NHAI, availability of 10% mobilization advances on bid project cost (BPC) at bank rate and availability of interest-bearing working capital loan on intermittent milestones. Further, BPC and O&M cost 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.

Assured cash flow due to annuity nature of the revenue stream linked to inflation indexed O&M annuity and bank rate linked interest annuity
During operational phase, cash flow is assured in the form of annuity payments from NHAI on semi-annual basis covering 60% of the project completion cost along with interest at 'bank rate plus 3%' on reducing balance and inflation-indexed O&M annuity. However, non-linear transmission of the bank rate over the lending rate may expose the company's debt coverage indicators and cash flow resilience to an extent.

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.

Demonstrated track record of DBL in executing road projects
DBL has demonstrated track record of successfully operating and maintaining build-operate and transfer (BOT) projects for more than a decade. DBL has pan India presence in more than 14 states with diversified execution capabilities in roads & bridges, mining, water sanitation, sewage, dams, irrigation, industrial, commercial and residential buildings. The order book position of DBL stood healthy at Rs.27,411 crore as on March 31, 2021. Further, larger fleet of construction equipment as compared to its peers enables it to complete most of the projects ahead of schedule and consequently earn early completion bonus. DRSHPL has also entered into fixed price EPC contract with DBL for execution of the project and DBL had already infused 100% of the promoter's contribution.

Key Rating Weaknesses
Inherent execution risk; albeit partly offset on account of project progressing well ahead of schedule
DRSHPL is exposed to inherent construction risk attached to BOT road projects. The company received appointed date on December 14, 2018. Currently, 100% RoW is available on 3H basis. The scope of work includes construction of twin tube tunnel of approximately 2.28 km each and other structural works including Rail over bridge (RoB) (excluding service road) which constitutes around 72% and 6% of the total EPC cost (excluding inflation) respectively. However, DRSHPL has received necessary approvals and clearances required for the execution of the project and tunnel are to be constructed on a hard rock which is certified by the geotechnical engineers wherein excavation is relatively less complex as compared to soft rock. Further, execution of complex project stretch is partially mitigated by the execution capability of the EPC contractor (DBL) and ahead of schedule project progress. DRSHPL already achieved four payment milestones ahead of schedule upon achieving 75% of the physical progress**.** The project is progressing ahead of schedule as witnessed by physical progress of 87.47% till August 27, 2021 as against schedule commercial operations date of March 2023.

Inherent O&M risk associated with the project; albeit with partial mitigation through proposed signing of fixed price O&M contract with the sponsor
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. However, rigid (cement concrete) pavement is considered for the main carriageway which is prone to less wear and tear as compared to the flexible (bituminous) pavement. Furthermore, as per the terms of the sanctioned facility, O&M expenses till the receipt of first annuity is the part of total project cost which provides comfort in case of delay in receipt of annuity. Also, O&M risk is partly mitigated by proposed fixed price, fixed time O&M contract with DBL.

Inherent interest rate risk
DRSHPL is exposed to inherent interest rate risk on account of floating rate of interest rate with interest reset clause. Thus, any adverse movement in the interest rate of the company without commensurate alignment in the interest annuities shall impact the debt coverage indicators of the company.

Liquidity Analysis: Adequate
DRSHPL's liquidity is underpinned from the fact that it has access to timely need-based support from DBL (its sponsor) as well as from the fact that it has extended sponsor support undertaking to fund any cost overrun and shortfall in servicing debt

obligations of DRSHPL due to delay in receipt of the construction support as well as for the repayment of the term debt facilities. As per the terms of sanction of the project debt, the company shall maintain DSRA, of an amount equivalent to ensuing six months of principal repayment and three months of the interest payment in form of fixed deposit receipts (FDR) or Bank Guarantee in respect of the facility apart from creation of major maintenance reserve account post achievement of the commercial operations date (COD) which is expected to provide liquidity cushion to DRSHPL.

Analytical approach
Standalone while factoring track record of EPC contractor along with the sponsor support undertaking to meet any shortfall in debt servicing.

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

About the company
DBL Rewa Sidhi Highways Private Limited, a special purpose vehicle (SPV) incorporated and owned by DBL has entered into 19-year concession agreement (CA) (including construction period of 1460 days from appointed date) with NHAI for the design, build, operate and transfer (DBOT) of 15.350 km road on hybrid annuity basis.
The project under consideration aims at four laning of Churhat Bypass on the Rewa - Sidhi section of NH-75E from chainage km 33+200 to km 55+400 including construction of twin tube road tunnel of 2.28 km length in the state of Madhya Pradesh. The bid project cost for the project is Rs.1004.00 crore. Estimated completion cost of the project is Rs.815.20 crore which is to be funded through construction grant from NHAI of Rs.439.60 crore (including inflation), debt of Rs.285 crore and balance through promoter's contribution. The stretch has received appointed date on December 14, 2018.

Brief Financials: Not applicable as DRSHPL is a project stage company

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 facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

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

Annexure-1: Details of Facilities

Name of the Facility	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	December 2034	285.00	CARE A-; Positive
Non-fund-based - LT-Bank Guarantees	-	-	-	50.20	CARE A-; Positive

Annexure-2: Rating History of last three years

Sr. No.	Name of the Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Term Loan-Long Term	LT*	285.00	CARE A-; Positive	-	1)CARE A-; Stable (28-Aug-20)	1)CARE A-; Stable (26-Aug-19)	-
2.	Non-fund-based - LT-Bank Guarantees	LT*	50.20	CARE A-; Positive	-	1)CARE A-; Stable (28-Aug-20)	1)CARE A-; Stable (26-Aug-19)	-

*Long Term

Annexure-3: Covenants of the rated facilities- Not applicable

Annexure-4: Complexity Level of various facilities rated for this company:

Sr. No.	Name of the Facility	Complexity Level
1.	Non-fund-based - LT-Bank Guarantees	Simple
2.	Term Loan-Long Term	Simple

Annexure-5: Bank Lender Details

Click here to view Bank Lender Details

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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