

Ramky Elsamex Hyderabad Ring Road Limited

May 12, 2020

Rating

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	42.38 (reduced from 93.02)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Revised from CARE BB-;Stable (Double B Minus; Outlook: Stable)
Total Facilities	42.38 (Rupees Forty Two Crore and Thirty Eight Lakh only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the Ramky Elsamex Hyderabad Ring Road Limited (REL) is on account of Timely receipt of annuities without deductions from HMDA post arbitration award, successful completion of major maintenance cycle and significant reduction in debt levels during FY20 (period from April 01, 2019 to March 31, 2020). The ratings are tempered by O&M risk, interest risk and weak sponsor profile. The ratings however derive strength from adequate liquidity position, moderate credit risk associated with annuity provider and favorable Arbitral Tribunal Award resulting in crystallization in cash flows.

Positive Rating Factors

- Timely receipt of annuities from HMDA without deductions

Negative Rating Factors

- Further any deductions and delay in receipt of balance annuities

Detailed description of the key rating drivers

Key Rating Weaknesses

O&M (Operation and Maintenance) Risk: The Company is mandated to operate and maintain the road as per specifications set out in the CA, non-compliance of which could result in penalties being levied by Authority and thereby exposing REL to O&M risk. In-house team of the company is undertaking routine maintenance works, which works out to 4.20 lakh/km/lane for FY20.

Interest rate risk: The company shall remain exposed to variations in interest rate on the project debt availed during the concession period, owing to interest rate resets which will be carried out by the lenders periodically. As a result, steep increases in the interest rate will subject the SPV to cash flow risk. Currently, the company is paying around 12.11% towards their outstanding term loan facilities.

Weak sponsor profile: Ramky Elsamex Hyderabad Ring Road Limited is a Special Purpose Vehicle (SPV) incorporated on July 18, 2007 by Ramky Infrastructure Ltd and Elsamex SA a Spanish engineering and Construction Company and a subsidiary of IL&FS Transportation Networks Limited, which currently holds 74% and 26% stake in the company respectively. Both the sponsors have been downgraded to Default grade by various credit rating agencies.

Key Rating Strengths

Adequate liquidity position: The Company has free cash & bank balance of Rs 1.41 crore in escrow account as on May 10, 2020 post interest payment up to April 30, 2020. Further, the 20th semi-annual annuity of Rs 31.50 crore is due on May 26, 2020, with that the company will be having adequate liquidity in debt servicing obligations (interest plus principal) of Rs 2.25 core for balance 2 months in Q1FY21 and Rs 11.62 crore in Q2FY21. The yearly annuity receipts of Rs 63 crore for FY21 is more than comfortable considering the total debt servicing obligations of Rs 26.10 Crore for FY21. Further, the company has not availed moratorium in view of ongoing covid-19 pandemic from the lenders, considering the annuity receipts will be sufficient enough to cover the debt servicing obligations.

Moderate Credit Risk Associated with Annuity Provider – HMDA: Hyderabad Metropolitan Development Authority (HMDA) is the apex agency with strategic importance to the Government of Telangana for planning, regulating, developing and coordinating the overall urban development functions in the entire Hyderabad Metropolitan Region (HMR). HMDA provides infrastructure facilities like construction of flyover, widening roads, maintenance of lakes parks and greenery and has executed large projects like – Elevated Express Highway Corridor, Outer Ring Road (through HGCL), etc. HMDA generates revenues from various charges/ fees such as development charges, layout permission charges, toll collection through HGCL

²Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

etc. In FY2018, the entity reported a net surplus of Rs. 53.25 crore on a revenue income (RI) of Rs. 272.20 crore, as compared to a net deficit of Rs. 67.64 crore on an RI of Rs. 98.25 crore in the previous year. By virtue of being a quasi-government body, the risk arising from HMDA defaulting on the annuity payments is very moderate. Any adverse change in the credit profile of the counterparty is a key rating sensitivity.

Favorable Arbitral Tribunal Award resulting crystallization in cash flows: The Company and HMDA had issues related to claim on the bonus annuity for early completion of the project, which was not able to resolve by the Independent consultant. Hence, the company had invoked arbitration, which is provided under 39.2 clause of the concession agreement through its letter dated August 10, 2012. The Hon'ble Arbitral Tribunal in their order dated June 18, 2018 has conveyed that the HMDA (Respondents) has to pay the company a total claim of Rs 168.37 crore within three months from the date of the award failing which the HMDA shall pay interest as per SBI PLR on the said amount till the realization of the entire payment. However HMDA did not make the payment as per the stipulated timeline of the order. However, the same can be contested by HMDA in courts of law thereby the same has not been factored in the project cash flows.

Timely receipt of annuities without deductions from HMDA: The project is an operational annuity based project and is thus not exposed to any traffic risk. REL is eligible for semi-annual annuities of Rs.31.50 crore. The project has received all the scheduled 19 semi-annual annuities till November 2019 with major deductions in 1st and 4th annuity. Post arbitration award in June 2018, the company received its 18th annuity with 69 days delay i.e. August 3, 2019 as against the due date of May 26, 2019 without any deduction. Further, the company received its 19th annuity on time i.e. November 26, 2019 without any delay and deduction. There has been significant improvement in timely receipt of payment from 120 to 400 days of delay to 69 days and further reduce to zero day payment.

Successful completion of major maintenance cycle: The Company has successfully completed the major maintenance expenditure at a total cost of Rs 38.32 crore (at Rs 37.93 lac/lane/km) against the initial estimates of Rs 30.13 crore. The company has met the expenditure from the annuity receipts. Hence no major expenditure is expected at the end of concession period.

Significant reduction in debt however any delay in receipt of annuity carries risk in absence of DSRA and weak Sponsor profile: The Company has reduced the outstanding debt significantly from Rs 93 crore as on December 31, 2018 to Rs 42.38 crore on March 31, 2020. Primarily due to prepayment of IIFCL loan. Further, the debt obligations for the entire year of FY21 is Rs 26.10 crore against the total annuity receipts of Rs 63 crore. However, any delay in receipt of annuity payment will strain the cash flow due to absence of DSRA and weak sponsor profile.

Analytical Approach: Standalone

Applicable Criteria:

[Policy on Default Recognition](#)

[Rating Outlook and Credit Watch](#)

[Financial Ratios-Non-Financial Sector](#)

[Rating Methodology-Infrastructure Rating](#)

About the Company

Ramky Elsamex Hyderabad Ring Road Limited (REL) is a Special Purpose Vehicle (SPV) incorporated on July 18, 2007 by Ramky Infrastructure Ltd (Ramky, rated CRISIL D on February 27, 2020) and Elsamex SA a Spanish engineering and Construction Company and a subsidiary of IL&FS Transportation Networks Limited (IND D and ICRA D; Issuer Not Cooperating), which currently holds 74% and 26% stake in the company respectively. The project was awarded for design, construct, develop, finance, operate and maintain eight-lane access-controlled expressway under Phase II -A program in the Hyderabad city for a stretch of 12.63 km from Tukuguda (Km 121) to Shamshabad (Km 133.63), under the Build, Operate & Transfer (BOT) Annuity Basis by HMDA (erstwhile Hyderabad Urban Development Authority – HUDA). The Concession Agreement was signed between HMDA and REL on August 18, 2007 for a concession period of 15 years, which includes 30 months of construction period. The project was awarded based on the lowest semi-annual annuity quote of Rs 31.50 crore along with a construction grant of Rs 66.50 crore. The total project cost was estimated at Rs 399.37 crore, which was envisaged to be funded by promoter contribution of Rs 45 crore, Grant of Rs 66.50 crore and term loans of Rs 287.87 crore at a Debt Equity ratio of 2.58:1 (after considering grant from HMDA as equity). The project was completed and received Provisional Completion Certificate dated March 31, 2010 retrospective from November 26, 2009 against the Scheduled Project Completion Date (SPCD) of May 27, 2010. Hence, REL was eligible for bonus of one annuity payment on account of early completion of project. Further, REL received final completion certificate retrospective from September 16, 2010. The Company and HMDA had issues related to claim on the bonus annuity for early completion of the project, which was not able to resolve by the

Independent consultant. Hence, the company had invoked arbitration, which is provided under 39.2 clause of the concession agreement through its letter dated August 10, 2012. The Hon'ble Arbitral Tribunal in their order dated June 18, 2018 has conveyed that the HMDA (Respondents) has to pay the company a total claim of Rs 168.37 crore within three months from the date of the award failing which the HMDA shall pay interest as per SBI PLR on the said amount till the realization of the entire payment. However HMDA did not make the payment as per the stipulated timeline of the order.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	39.94	49.23
PBILDT	36.86	26.17
PAT	12.68	5.32
Overall gearing (times)	3.76	2.53
Interest coverage (times)	1.57	1.42

A: Audited

Status of non-cooperation with previous CRA: Non-cooperation with other CRA(s): ICRA Ltd has suspended rating assigned to the bank facilities of Ramky Elsamex Hyderabad Ring Road Limited vide its press release dated June 26, 2015 on account of lack requisite information to carry out rating surveillance.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	February 2022	42.38	CARE BB+; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	42.38	CARE BB+; Stable	-	1)CARE BB-; Stable (04-Apr-19)	-	1)CARE D (28-Mar-18)

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

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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