Ramky Elsamex Hyderabad Ring Road Limited

July 16, 2020

Ratings:

Bank Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	17.03 (reduced from 42.38)	**CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**	Revised from CARE BB+; Stable (Double B plus; Outlook: Stable)
Total	**17.03 (Rupees Seventeen Crore and Three Lakh only)**		

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 Q1FY21 (period from April 01, 2020 to June 30, 2020). The ratings are tempered by O&M risk, interest risk and weak sponsor profile. The ratings however derive strength from adequate liquidity position, presence of DSRA, moderate credit risk associated with annuity provider and favorable Arbitral Tribunal Award resulting crystallization in cash flows.

Rating sensitivities:

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 Strengths

Adequate liquidity position: The adequate liquidity of the company is characterized by voluntarily prepayment along with regular payment of about Rs 26.34 crore during Q1FY21 resulting in significant reduction of outstanding term loan. Thereby, repayment for FY21 has already been done and the next term loan instalment is due in August 2021 (FY22). Further, the company has created a lien marked DSRA of Rs. 1.00 Crore for interest obligations alone, which is sufficient to cover the interest on the term loan for 6 months. Additional comfort is drawn from the presence of free cash balance of Rs 3.74 crore as on June 15, 2020. In view of Covid-19 pandemic, the company had not availed any moratorium since the cash flows are not affected due to annuity based nature. However, going forward timely receipt of annuity from HMDA is critical from credit perspective.

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 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.

Favourable 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.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*
**Issuer did not cooperate; Based on best available information*

Timely receipt of annuities without deductions from HMDA, post arbitration award: 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 20 semi-annual annuities till June 2020 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. The 20th annuity was received on June 8, 2020 against due date of May 26, 2020 is due to procedural delay on account of Covid-19 lockdown.

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 coupled with presence of DSRA: 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 and further reduced by Rs 26.38 crore during Q1FY21. Further, the company has created a lien marked DSRA of Rs. 1.00 Crore for interest obligations alone, which is sufficient to cover the interest on the term loan for 6 months

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 12.05% 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 and it is promoted by Ramky Infrastructure Ltd, which is having 100% shareholding post acquisition of 26% of the equity shares held by Elsamex S.A during November 2019. Sponsor has been downgraded to Default grade by credit rating agency.

Liquidity: Stretched

Liquidity of the company remains stretched, though the gross cash accrual generation of Rs 5.37 crore vis-à-vis schedule repayment obligation of Rs 0.65 crore for FY20 is comfortable, the continuous delay in debtor's collection resulted in timing mismatch in cashflows to meet working capital requirements. Thereby, the working capital utilization for the trailing 12 months ended May 2020 remains at 100%.

However, the promoters have been infusing funds regularly and availed additional ad-hoc working capital limits to meet any additional working capital requirements. With 6 months relief in interest obligations, having Covid Emergency line of Credit of Rs 1.20 crore coupled with minimal scheduled repayment obligation of Rs 0.65 crore for FY21, execution of works as planned coupled with timely realization of funds and outstanding Bank Guarantee are critical from liquidity perspective.

Analytical Approach: Standalone

Applicable criteria:

Criteria on assigning 'Outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating methodology – Infrastructure sector
Financial Ratios - Non-Financial Sector

About the Company

Ramky Elsamex Hyderabad Ring Road Limited (REL) is a Special Purpose Vehicle (SPV) incorporated on July 18, 2007 and it is promoted by Ramky Infrastructure Ltd, which is having 100% shareholding post acquisition of 26% of the equity shares held by Elsamex S.A during November 2019. 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 Tukkuguda (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.

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

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: 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	17.03	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 (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Type	Amount Outstanding (Rs. crore)	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	17.03	1.	Fund-based - LT-Term Loan	LT	17.03	1.

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.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Group Head Name – Mr. Prasanna Krishnan
Group Head Contact no. - 040-67937421
Group Head Email ID- prasanna.krishnana@careratings.com

Relationship Contact
Name: Mr. Ramesh Bob
Contact no. : +91 9052000521
Email ID: ramesh.bob@careratings.com

About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**