GR Gundugolanu Devarapalli Highway Private Limited (Revised)

March 16, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities- Senior Debt	499.72 (enhanced from 320.00)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Long-term Bank Facilities- Subordinate Debt	70.28 (enhanced from 30.00)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Total Bank Facilities	**570.00 (Rs. Five Hundred Seventy Crore Only)**		
Non-convertible Debentures- Senior Debt	267.00 (reduced from 447.00)	CARE AAA; Stable (Triple A; Outlook: Stable)	Reaffirmed
Non-convertible Debentures- Subordinate Debt^	-	-	Withdrawn
Total Long-term Instruments	**267.00 (Rs. Two hundred sixty seven crore only)**		

Details of instruments/facilities in Annexure-1
^withdrawn as proposed NCDs were not placed

The company is in the process of refinancing its existing debt of Rs.788 crore through raising of non-convertible debenture (NCD) and term debt of Rs.837 crore. The existing loan shall be repaid through refinanced debt, and hence at no point in time, the total outstanding debt would exceed Rs.837 crore.

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the bank facilities and instruments of GR Gundugolanu Devarapalli Highway Private Limited (GGDHPL) takes into consideration the receipt of provisional commercial operations date (PCOD) for 91.59% of project length during July 2021 and timely receipt of first construction (proportionate) as well as interest annuities from National Highways Authority of India Limited (NHAI; rated 'CARE AAA; Stable') on pro rata basis. The rating also factors in the achievement of considerable physical progress of 97% with balance pending completion cost of Rs.47.86 crore as on January 31, 2022.

Residual construction risk and its likely impact on the cash flow in the form of annuity deduction or descoping is largely mitigated by (i) availability of liquidity in the form of fixed deposits receipts (FDR) towards balance works, (ii) handover of entire right of way (RoW) for the project along with all the requisite approvals in place for construction of ROB and (iii) demonstrated execution capability of the EPC contractor-cum-Sponsor- GR Infraprojects Ltd (rated 'CARE AA; Stable/ CARE A1+').

The rating also favourably factors the moderate project leverage and minimal counterparty credit risk of GGDHPL associated with NHAI as an annuity provider. Creation of debt service reserve account (DSRA) equivalent to six months of debt servicing requirements, and the inherent strengths of hybrid annuity model (HAM) are other credit positives for GGDHPL. Furthermore, debt coverage indicators of the company are expected to remain healthy and interest rate risk is expected to substantially offset, given the repo rate-linked structure for the refinanced debt.

The above rating strengths are partially offset by the inherent operation & maintenance (O&M) and major maintenance (MM) risk associated with the project and right to reset the interest rate spread with lenders after every three years. Nevertheless, the proposed structural features in the form of major maintenance reserve account (MMRA) combined with adequate assumptions are expected to impart cash flow resilience to GGDHPL to an extent.

The rating also takes note of a put option exercisable at the end of every three years against a notice period of 90 days, thus exposing GGDHPL to refinancing risk. However, strong credit profile of counterparty, adequate project leverage and timely receipt of annuity mitigates the aforementioned refinancing risk to a large extent.

Rating Sensitivities

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

- Deterioration in the credit profile of authority (i.e., NHAI).
- Non-adherence to the proposed debt structure.
- Significant delays or deduction in annuities resulting in moderation in debt coverage indicators.
- Any adverse movement in O&M expenses or increase in the spread of the interest rate lowering the debt service coverage ratio (DSCR) below 1.20 times on a sustained basis.

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

Detailed description of the key rating drivers

Key Rating Strengths

Receipt of provisional PCOD on partial length and mitigation of residual construction risk to a large extent

GGDHPL has received PCOD on July 10, 2021, for the completed length of 64.00 Km (91.59%) of the total project length of 69.88 Km. The physical progress of the project stood at 93.64% at the time of PCOD with pending completion work of Rs.128 crore related to completion of three major bridges and one ROB. The entire land for the project stretch is handed over to the company and all the requisite approvals are in place for the construction of ROB. GGDHPL has completed all the three major bridges as well as right side of ROB and all the structures are operational. Work has started on the left hand side (LHS) of the ROB and as indicated by the management the same is expected to be completed by June 2022.

The physical progress of the project stood at 97% till December 31, 2021, with pending construction cost of Rs.47.86 crore as on January 31, 2021, against which the company has lien marked FDRs of equivalent amount. GRIL's strong execution capability also mitigates the residual construction risk to a considerable extent.

Timely receipt of first annuity albeit on a proportionate basis

GGDHPL has received the first annuity during January 2022 on proportionate completion cost (i.e., for 91.59% of the completion), while O&M annuity is received in full. GGDHPL expects receipt of second annuity in full as it anticipates achieving final COD before July 2022, i.e. next annuity date.

Expected strong debt coverage indicators post refinancing and mitigation of interest rate risk to a larger extent

GGDHPL is in the process to refinance its existing term debt through mix of debt NCD to the tune of Rs.836.72 crore. The incremental proposed top-up loan of Rs.70.00 crore shall remain subordinated to the senior debt and shall be utilised towards creation of DSRA and MMRA post refinancing.

The refinanced debt shall be linked with repo rate with fixed spread for the first three years and reset clause at the end of every three years thereafter. Given the stability of the cash flow due to repo rate linked structure for proposed debt, interest rate risk is expected to be substantially mitigated. Consequently, the debt coverage indicators post refinancing are likely to remain healthy on a consistent basis. The refinanced debt shall have a tail period of 11 months leaving two semi-annuities.

Assured cash flow due to 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, 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 annuity at 'bank rate plus 3%' 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. GGDHPL has received all the construction grants from NHAI without any delays or deduction.

Liquidity: strong

GGDHPL is envisaged to generate healthy cash flows backed by a steady revenue stream in the form of annuity payments throughout the tenor of the term loan. There is also a gap of around one month between the scheduled annuity payment date and the debt repayment date, which provides an additional cushion in case of a delay in the receipt of the annuity. As on February 25, 2022, GGDHPL has created a funded DSRA equivalent to six months of debt servicing obligations amounting to Rs.44.70 crore as per the sanctioned condition. The DSRA reserve shall continue post refinancing of the debt. Furthermore, favourable restricted payment covenants linked to maintenance of stipulated DSCR, over and above DSRA and MMRA is expected to provide cash flow cushion.

Key Rating Weaknesses

Inherent O&M risk associated with the project

Although receipt of inflation-indexed O&M annuity partly mitigates O&M risk, GGDHPL is still exposed to the risk of any sharp increase in the O&M cost due to more-than-envisaged wear and tear as the project stretch is flexible. CARE Ratings Ltd notes that O&M assumptions of GGDHPL are relatively lower as compared to its peers while the MM assumptions are adequate. Furthermore, fixed-price O&M arrangement (excluding electricity cost and project insurance cost) is limited to only one year. However, in the base case, CARE Ratings Ltd has assumed O&M and MM outgo in line with its industry aggregates for similar projects and finds the coverage indicators comfortable.

Apart from moderate project leverage, provision of MMRA enhances the ability to absorb higher major maintenance outgo. Furthermore, the sponsor has provided undertaking to fund the shortfall in O&M and MM expense over and above the base-case scenario and any other shortfall in debt servicing till the settlement of the loan.

Put option in proposed debt

The proposed debt has a put option exercisable at the end of every three years against a notice period of 90 days thus exposing GGDHPL to the refinancing risk. However, strong credit profile of counterparty, adequate project leverage and timely receipt of annuity mitigates the aforementioned refinancing risk to a large extent.

Analytical approach: Standalone

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

About the Company
GR Gundugolanu Devarapalli Highway Private Limited (GGDHPL), a special purpose vehicle (SPV) incorporated and owned by G R Infraprojects Limited [GRIL; rated 'CARE AA; Stable/ CARE A1+'] has entered into 17-year concession agreement (CA) (including construction period of 730 days from appointed date) with National Highways Authority of India. The project under consideration aims at four-laning of the Gundugolanu-Devarapalli-Kovvuru section of NH-16 from 15.320 km (existing km 15.700) to 85.204 km (existing km 81.400) of design length 69.884 km in Andhra Pradesh. The project has received PCOD on July 10, 2021.

Brief financials- Not applicable; as the company has achieved PCOD during July 2021.

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 (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	-	February 2035	499.72	CARE AAA; Stable
Term Loan-Long Term	-	-	-	August 2035	70.28	CARE AAA; Stable
Debentures-Non Convertible Debentures	-	-	-	-	0.00	Withdrawn
Debentures-Non Convertible Debentures	INE00VB07010	March 16, 2022	6.00%	February 2035	267.00	CARE AAA; 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 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	499.72	CARE AAA; Stable	1)CARE AAA; Stable (28-Feb-22)	-	-	-
2	Debentures-Non Convertible Debentures	LT	267.00	CARE AAA; Stable	1)CARE AAA; Stable (28-Feb-22)	-	-	-
3	Term Loan-Long Term	LT	70.28	CARE AAA; Stable	1)CARE AAA; Stable (28-Feb-22)	-	-	-

4	Debentures-Non Convertible Debentures	LT	-	-	1)CARE AAA; Stable (28-Feb-22)	-	-	-

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	Debentures-Non-convertible Debentures	Complex
2	Term Loan-Long Term	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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About CARE Ratings Limited:
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