

Hazaribagh Ranchi Expressway Limited

January 30, 2019

Ratings

Instruments*	Amount (Rs. crore)	Rating ¹	Rating Action
^Senior Non-Convertible Debenture issue (NCD) - Series A	458.00 (reduced from Rs.478.00 crore)	CARE BB (SO); (CARE Double B [Structured Obligation] [Credit Watch with Negative Implications]	Revised from CARE AAA (SO) [CARE Triple A (Structured Obligation)](Credit watch with negative implications)
^Subordinate Non-Convertible Debenture issue (NCD) - Series B	143.00 (reduced from Rs.148.5 crore)		
Total	Rs.601.00 crore (Rupees Six Hundred and one Crore Only)		

*Details of instruments/facilities in Annexure-1

^Ratings are based on various credit enhancement measures and structured payment mechanism for servicing of the Senior (Series A) issue and Subordinate (Series B) issue

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the senior and subordinate Non-Convertible Debentures (NCDs) of Hazaribagh Ranchi Expressway Limited (HREL) is on account of recent management actions in one of the group SPVs, Jharkhand Road Projects Implementation Company Limited (JRPICL, rated: CARE D) wherein they delayed servicing its debt obligation. The company did not make payment despite adequate liquidity available. While JRPICL is part of bankruptcy remote special purpose vehicle which had a ring-fenced structure payment mechanism, management cited the interim order passed by National Company Law Appellate Tribunal (NCLAT) on October 15, 2018 for not making payment and requesting a reversal of the payment made earlier on October 20, 2018. CARE vide its communication dated Jan 19th 2019, had highlighted the increased risk of default in the upcoming debt repayment as a result of impinging the integrity of ring fenced structured payment mechanism despite the existence of a trustee monitored structured payment mechanism. A similar action if undertaken by any of the other group companies including Hazaribagh Ranchi Expressway Limited (HREL), now cannot be ruled out and hence the rating action.

The rating continues to remain on 'CreditWatch with negative implications':

- Based on uncertainty that the HREL's management could possibly cease and desist upcoming further repayments citing the NCLAT order as done in case of JRPICL.
- Due to increased Operations & Maintenance (O&M) risks based on the weakening of the credit profile of the sponsor & contractor, i.e. IL&FS Transportation Networks Limited (ITNL, rated: CARE D).
- Because of 'Expression of Interest' for sale of its ownership stake in various road projects including HREL.

CARE will resolve the CreditWatch, once it receives clarification and update on these matters.

The ratings continues to favorably factor in the underlying annuity receivables from National Highway Authority of India (NHAI, 'CARE AAA Stable') with a track record of more than four years of its receipts along with Major Maintenance Reserve (MMR) and Debt Service Reserve (DSR) adequately covering debt servicing of both tranches. However, the company's willingness to make the repayments will remain a key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Weaknesses

Impinging the ring-fenced structured payment mechanism by group SPV, JRPICL

The group's action of not making payment despite adequate availability of funds in case of JRPICL by citing the NCLAT order, leads to tantamount to impinging of the ring-fenced structure. The change in management's stance to protect the integrity of the stipulated waterfall mechanism has led to increased risk of servicing debt obligations in timely manner.

Weakened Credit profile of the sponsor and O&M contractor

HREL is promoted by ITNL (CARE D) and PLL (CARE D). ITNL has entered into a sponsor support agreement with HREL in regards to management control, cover any shortfall between the termination payments and total debt outstanding in respect of the debentures in case of a termination event, fund any increase in the O&M costs (for both regular and major maintenance works including admin) over and above the base case business plan and funding any shortfall in annuity due to non-availability of lane as stipulated in the concession. As ITNL overall credit profile has significantly deteriorated, it

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

leads to higher risk in meeting any of these obligations arising from the project on account of sponsor undertaking. Any impairment with regards to performing O&M contract will be a key rating sensitivity.

Key Rating Strengths

Strong Financial profile of annuity provider – NHA

The project being an annuity project from NHA (CARE 'AAA Stable') has a strong financial profile and has made timely disbursements of annuities hence minimizing any revenue risk for the project. HREL has received 12 annuities till date on semiannual basis of Rs.64.08 crore with minimal deductions. The last annuity due of 15th September was received on September 26, 2018. Any deductions or delay in annuities because of the recent management actions will remain key rating sensitivity.

Analytical Approach: Standalone considering various credit enhancement measures and structured payment mechanism for the NCD's repayment.

Liquidity Analysis:

HREL has maintained Rs. 53 Crore in DSRA which is in line with the stipulated requirement. Funds available in other surplus reserves amount to Rs. 23.05 Crore. HREL receives annuity of Rs. 64.08 Crore semi-annually. This is subject to timely maintenance of the road stretch. In the past there have been minimal deductions in annuity. Although the company has adequate liquidity, however any steps taken by management to restrict the payments or reduction in annuities because of recent management actions and O&M performance will remain key rating sensitivities

Applicable Criteria:

[CARE's Policy on Default Recognition](#)

[Criteria on assigning Outlook to Credit Ratings](#)

[Rating Methodology - Infrastructure Sector Ratings](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

Hazaribagh-Ranchi Expressway Limited was incorporated on March 19, 2009, as a Special Purpose Vehicle promoted by ITNL; holding 99.99% and Punj Lloyd Limited holding the balance.

The company entered into a Concession Agreement (CA) with National Highway Authority of India - NHA (rated 'CARE AAA Stable') on October 8, 2009 for the purpose of designing, constructing and maintaining the 4-laning of the Hazaribagh - Ranchi section of NH-33 from 40.50 km to 114.00 km in Jharkhand on a Build Operate Transfer (BOT) - Annuity basis. The concession period is for 18 years commencing from the appointed date, including construction period of 910 days. HREL achieved provisional completion on September 15, 2012 and received first annuity of Rs.64.08 crore (semi-annual) in July 2013. The project was completed ahead of time and Commercial Operation Date (COD) was achieved 134 days ahead of scheduled project completion which entitled HREL to receive the early completion bonus of Rs.47.00 crore which was received in FY14. HREL completed the construction of project stretch in August 2014 and received the project completion certificate in April 2015.

Financial Performance -

Particulars	(Rs. Crore)	
	FY17	FY18
	Audited	Audited
Income from Continuing Operations	92.78	72.01
PBILDT	66.49	64.53
PAT	-40.30	-22.23
PBILDT Interest Coverage	0.62	0.74

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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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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.

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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
Debentures-Non Convertible Debentures	February 14, 2017	8.75	Apr-14-2027	458.00	CARE BB (SO) (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures	October 13, 2017	8.50	Apr-14-2027	143.00	CARE BB (SO) (Under Credit watch with Negative Implications)

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (26-May-17)	1)CARE AA (21-Jul-16)	1)CARE AA (20-Oct-15)
2.	Bonds-Infrastructure Bonds	LT	-	-	-	1)Withdrawn (26-May-17)	1)CARE AA (21-Jul-16)	1)CARE AA (20-Oct-15)
3.	Debentures-Non Convertible Debentures	LT	458.00	CARE BB (SO) (Under Credit watch with Negative Implications)	1)CARE AAA (SO) (Under Credit watch with Negative Implications) (24-Oct-18) 2)CARE AAA (SO) (Under Credit watch with Negative Implications) (05-Oct-18)	1)CARE AAA (SO); Stable (28-Feb-18) 2)CARE AAA (SO); Stable (26-May-17)	1)Provisional CARE AAA (SO) (02-Feb-17)	-
4.	Debentures-Non Convertible Debentures	LT	148.50	CARE AAA (SO) (Under Credit watch with Negative Implications)	1)CARE AAA (SO) (Under Credit watch with Negative Implications) (24-Oct-18) 2)CARE AAA (SO) (Under Credit watch with Negative Implications) (05-Oct-18)	1)CARE AAA (SO); Stable (28-Feb-18) 2)CARE AAA (SO); Stable (26-May-17)	1)Provisional CARE AAA (SO) (02-Feb-17)	-

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