

## Hazaribagh Ranchi Expressway Limited

July 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Non Convertible Debentures	197.69	CARE A-; Positive	Revised from CARE BB; Stable
Non Convertible Debentures	5.81 (Reduced from 35.71)	CARE A-; Positive	Revised from CARE BB; Stable

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The revision in the rating assigned to the non-convertible debentures (NCDs) of Hazaribagh Ranchi Expressway Limited (HREL) factor in the established track record of receipt of last three annuities within 30 days of due date of receipt and without major deductions from National Highways Authority of India (NHAI, rated CARE AAA; Stable) and substantial completion of first major maintenance activity. Besides, NHAI has also released withheld annuities of Rs.11.54 crore along with these annuities. Going forward, completion of residual work of major maintenance within envisaged timeline and thereby receiving full annuities shall be key rating sensitivity.

The rating continues to factor in comfortable debt coverage metrics, strengths derived from annuity nature of project, structured payment mechanism, whereby biannual annuity is received from NHAI in an escrow account for servicing of the NCDs, fixed rate of coupon eliminating the interest rate risk, maintenance of debt-service reserve account (DSRA) as per the stipulated terms and moderate tail period.

The rating strengths are however tempered by the O&M risk elevated by weak credit profile of O&M contractor, deductions made by NHAI in the past impending major maintenance activity and absence of MM reserves.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Track record of receipt of annuities without any deductions.
- Completion of residual MM in timely manner without any significant cost/time overrun.

#### Negative factors

- Non-receipt/delay/reduced receipt of annuities thereby impacting the cashflow position.
- Non maintenance of the project stretch resulting in deduction of annuities/any other penalties levied.
- Creation of major maintenance reserve for next major maintenance cycle

**Analytical approach:** Standalone

**Outlook:** Positive

The outlook has been revised from "Stable" to "Positive" due to the expected improvement in credit profile led by completion of Major Maintenance in a timely manner without any cost overrun and satisfactory maintenance of the stretch, thereby, resulting in receipt of annuities without any deductions.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

## Detailed description of the key rating drivers:

### Key strengths

#### **Operational annuity project with established track record of receipt of annuity, thus providing cash flow stability**

HREL is an operational annuity project and hence is not exposed to any traffic or construction risk. The due date for receipt of annuity is March 14 and September 14 on a yearly basis and the last three annuities were received within timely manner albeit with some deduction. However, post completion of major portion of MM, HREL has received the withheld portion of the 21<sup>st</sup> and 22<sup>nd</sup> annuities. Timely receipt of annuities with any deductions post completion of residual MM work remains a key rating sensitivity.

**Satisfactory debt coverage metrics:** The company has witnessed delays in the past primarily due to restrictions placed on cash outflow being a part of IL&FS group entity, however, with transfer of shareholding, the debt from ITNL and its group entities has been assigned to Roadstar InvIT in consideration of units of InvIT. Thus, the unsecured group entity debt which was required to be repaid along with NCDs has now been replaced by InvIT debt. As per the amendment and restated facility agreement between InvIT & HREL, the InvIT has waived the default calling right on its subordinated debt and no penalty shall be paid in case of non-payment thereof which provides higher liquidity for repayment of NCDs. Post the transfer of HREL to InvIT, the company has been servicing debt in a timely manner and has a debt free track record of more than 1 year. Senior Debt to annuity remained comfortable at 1.82x during FY24 and is expected to around 1.35x for FY25. The cashflows are expected to adequately cover the lenders debt with debt coverage metrics expected to remain comfortable. The last instalment of NCDs is due in April 2027 whereas the CA end date is in March 2028 leading to tail period of 1 year i.e., 2 annuities.

#### **Strong financial risk profile of annuity provider, NHAI**

NHAI's rating factors in the high level of support that it receives from government of India due to its strategic importance as the country's nodal agency for implementing various road sector projects including various phases of the National Highways Development Programme (NHDP). The outlook on NHAI reflects the outlook on the sovereign, whose direct and indirect support continues to be the key rating driver. By virtue of being a quasi-government body, the risk arising from NHAI defaulting on the annuity payments is negligible.

**Advanced stage of completion of first MM:** HREL is currently carrying out the first MM cycle and has almost completed the MM with estimated cost of about Rs.80 crore. The balance MM work pending amounts to around Rs.4 crore as on May 31, 2024. The company has not been maintaining the Major maintenance reserve for the first MM and has been funding the first MM from project cashflow. However, the company proposes to create MM reserve for the next cycle due in FY28-FY29.

**Presence of structured payment mechanism for debt servicing and maintenance of DSRA:** HREL maintains an escrow account with escrow agent as stipulated in the escrow agreement. The semi-annually annuities from NHAI are received in an escrow account and the funds are then transferred from the escrow account to designated sub-accounts accounts based on the defined waterfall as per the escrow agreement. In line with the covenants of DTD, the company has been maintaining DSRA of ₹53 crore as on October 10, 2023.

**Fixed interest rate:** The NCD repayment and coupon payment are made on semi-annual basis (i.e., due on October 14<sup>th</sup> and April 14<sup>th</sup> every year) with a fixed interest rate of 7.50% per annum throughout the remaining tenure of the NCDs thereby eliminating interest rate risk.

### Key weaknesses

**Inherent maintenance risk associated with road projects:** HREL is exposed to O&M risk as it is mandated to maintain the road stretch as per the terms of the CA. Any failure to maintain the road stretch as per CA may translate into reduction in annuity

receivables as seen in the past. Any such shortfall in annuity will have a direct bearing on the envisaged debt servicing capability of the company.

By virtue of being transferred to InvIT, the O&M for the project is undertaken by project manager of InvIT i.e., Elsamex Maintenance Services Ltd. (Elsamex - ITNL Group Company) instead of ITNL earlier. The existing fixed price O&M contract with ITNL has been novated to Elsamex without any change in the term of the agreement. Elsamex is the EPC arm of ITNL group having considerable experience in handling road projects. However, being part of ITNL group, its credit profile continues to remain weak.

With respect to current MM, the company has fixed price contract; however, the second MM activity will continue to be undertaken through item rate contract to be executed as and when required. The MM cost being based on item rate contract continues to remain open to market price fluctuations. Further, HREL has not created major maintenance reserve although it plans to create the same for second round of major maintenance activity. Also, the GST is first paid by the company to the government and is later reimbursed from NHAI. Accordingly, HREL has paid GST on last three annuities amounting to about ₹11.5 crore/annuity, and the same is reimbursed by NHAI with a time lag.

### **Liquidity: Adequate**

The liquidity position of HREL is adequate with cash flow receivable from NHAI in the form of annuity of Rs.128.16 crore as against repayment of senior debt of Rs.60.63 crore in FY25 with a 'T+30' repayment structure and presence of DSRA of about Rs.64 crore as on Mar. 31, 2024 (covers one semi-annual debt obligation) in the form of mutual funds. As on May 31, 2024, the company has free cash balance of Rs.19 crore.

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** Not applicable

### **Applicable criteria**

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Road Assets-Annuity](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Infrastructure Sector Ratings](#)

### **About the company and industry**

#### **Industry classification**

Macro Economic Indicator	Sector	Industry	Basic Industry
Services	Services	Transport Infrastructure	Road Assets–Toll, Annuity, Hybrid-Annuity

HREL is a special purpose vehicle (SPV) incorporated on March 19, 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 company entered into a CA with NHAI on October 8, 2009 for the concession period for 18 years commencing from the appointed date (including construction period of 910 days).

HREL was initially promoted by IL&FS Transportation Network Limited (ITNL, rated CARE D; INC), however, the entire shareholding of ITNL was transferred on December 16, 2022 to Roadstar Infra Investment Trust, an InvIT for which ITNL is the sponsor.

HREL achieved provisional completion on September 15, 2012 and received first annuity of ₹64.08 crore 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.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income	78.90	70.20
PBILDT	-2.13	35.62
PAT	30.87	1.20
Overall gearing (times)	NM	NM
Interest coverage (times)	NM	0.91

A: Audited; NM: Not Meaningful; Note: 'the above results are latest financial results available'

#### 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:** Annexure-4

**Lender details:** Annexure-5

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-Convertible Debentures	INE526S07437	14-Feb-2017	7.5%	14-Apr-2027	30.73	CARE A-; Positive
Non-Convertible Debentures	INE526S07445	14-Feb-2017	7.5%	14-Oct-2024	5.81	CARE A-; Positive
Non-Convertible Debentures	INE526S07460	14-Feb-2017	7.5%	14-Oct-2025	8.31	CARE A-; Positive
Non-Convertible Debentures	INE526S07478	14-Feb-2017	7.5%	14-Apr-2025	7.06	CARE A-; Positive
Non-Convertible Debentures	INE526S07486	14-Feb-2017	7.5%	14-Apr-2026	25.75	CARE A-; Positive
Non-Convertible Debentures	INE526S07494	14-Feb-2017	7.5%	14-Oct-2026	29.07	CARE A-; Positive
Non-Convertible Debentures	INE526S07536	14-Feb-2017	7.5%	14-Oct-2025	24.92	CARE A-; Positive
Non-Convertible Debentures	INE526S07551	14-Feb-2017	7.5%	14-Apr-2025	24.92	CARE A-; Positive
Non-Convertible Debentures	INE526S07569	14-Feb-2017	7.5%	14-Oct-2024	24.92	CARE A-; Positive

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-Convertible Debentures	INE526S07577	14-Feb-2017	7.5%	14-Apr-2027	6.23	CARE A-; Positive
Non-Convertible Debentures	INE526S07585	14-Feb-2017	7.5%	14-Apr-2026	8.72	CARE A-; Positive
Non-Convertible Debentures	INE526S07593	14-Feb-2017	7.5%	14-Oct-2026	7.06	CARE A-; Positive

ISIN numbers INE526S07502, INE526S07528 have been redeemed.

#### Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Debentures-Non Convertible Debentures	LT <sup>^</sup>	197.69	CARE A-; Positive	-	1)CARE BB; Stable (27-Oct-23) 2)CARE C; ISSUER NOT COOPERATING * (30-May-23)	1)CARE D; ISSUER NOT COOPERATING * (31-May-22)	1)CARE D; ISSUER NOT COOPERATING * (08-Jun-21)
2	Debentures-Non Convertible Debentures	LT	5.81	CARE A-; Positive	-	1)CARE BB; Stable (27-Oct-23) 2)CARE C; ISSUER NOT COOPERATING * (30-May-23)	1)CARE D; ISSUER NOT COOPERATING * (31-May-22)	1)CARE D; ISSUER NOT COOPERATING * (08-Jun-21)

\*Issuer did not cooperate; based on best available information.

<sup>^</sup>LT: Long term

#### Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

#### Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple

#### Annexure-5: Lender details: Not applicable

**Note on the complexity levels of the rated instruments:** CARE Ratings 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](mailto:care@careedge.in) for any clarifications.

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