

India Ratings Upgrades Hazaribagh Ranchi Expressway's NCDs to 'IND BBB'; Outlook Positive

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India Ratings and Research (Ind-Ra) has upgraded Hazaribagh Ranchi Expressway Limited's (HREL) non-convertible debentures (NCDs) to 'IND BBB' from 'IND BB-'. The Outlook is Positive. The detailed rating action is as follows:

Details of Instruments

Instrument	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Senior non-convertible debentures*	-	-	-	INR1,602.9 (reduced from INR2,059.6)	IND BBB/Positive	Upgraded
Subordinate non-convertible debentures*	-	-	-	INR431.8 (reduced from INR581.3)	IND BBB/Positive	Upgraded

*Details in annexure

Mentioned limits are outstanding

Analytical Approach

Ind-Ra continues to analyse the standalone credit profile of the company. The agency has not considered any debt other than the rated debt for arriving at the ratings because of the ring fencing and restricted payment conditions. Any funds injected by the sponsor in the form of unsecured loans will be fully subordinated to NCDs.

Detailed Rationale of the Rating Action

The upgrade reflects the timely receipt of the 23 annuities with minor deduction on account of delays in the rectification of deficiencies during the past 12 months. Ind-Ra takes comfort from the availability of healthy liquidity of INR819.4 million comprising a debt service reserve account (DSRA) of INR643.2 million along with surplus cash of INR176.2 million. The annuities are received from the strong counterparty, National Highways Authority of India (NHAI; 'IND AAA'/Stable) and are fixed thereby limiting the revenue risk. Also, the interest on the NCDs is fixed at 7.5%, minimising the interest rate risk.

HREL has been transferred to Roadstar Infra Investment Trust (Roadstar InvIT) along with five other assets, with one asset awaiting approval from NHAI. The Positive Outlook reflects the completion of the major maintenance cycle and no major deductions expected from annuities for delays in major maintenance.

List of Key Rating Drivers

Strengths

- Low risk of material performance-related annuity deduction post completion of major maintenance
- Transfer of HREL to InvIT

Weaknesses

- Heightened O&M risk
- Moderate debt structure

Detailed Description of Key Rating Drivers

Low Risk of Material Performance-related Annuity Deduction post Completion of Major Maintenance: The project annuities are secured through an escrow account of the fixed, semi-annual annuity streams under a concession agreement from NHAI. The company, so far, has received 23 half-yearly annuities of INR 640.8 million due in March and September each with minimum delays. The recent 23rd annuity witnessed a deduction of INR2.3 million (0.3% of the annuity) which was on account of few deficiencies in routine maintenance. Ind-Ra does not expect major performance-related deductions from the annuities since the major maintenance work is complete, as the 21st and 22nd annuity witnessed withholding of 10% of annuity which were released subsequently on the completion of the said work. The GST on annuities is received from NHAI and is paid to GST authorities with no impact on project cashflows.

Transfer of HREL to InvIT: Roadstar InvIT was established with investments from IL&FS Transportation Networks Limited (ITNL; IND D) and other entities of the IL&FS group under the restructuring plan for various assets of ITNL. A total of five assets have been transferred in to the InvIT post debt restructuring, and sixth asset awaits NHAI approval. The InvIT is sponsored by Roadstar Infra Private Limited, while the investment manager and the project manager are Roadstar Investment Managers Limited and Elsamex Maintenance Services Ltd (an IL&FS entity), respectively. There is debt at the SPV levels with no debt at the InvIT level. The total liquidity with the InvIT comprising surplus cash and other investments is around INR4,200 million as of July 2024. There is no cross-support mechanism among the assets; however, any support required by any asset would be funded by the InvIT. The upstreaming of cash to the InvIT from all the assets is due monthly for the toll projects and semi-annually for annuity projects.

Heightened O&M Risk: Project maintenance is key for continued and timely receipts of semi-annual annuities from NHAI. HREL has entered a fixed-price contract with Elsamex Maintenance Services Limited for taking up routine operations and maintenance works. The project's O&M costs are significantly higher than Ind-Ra estimates, and maintenance of the project stretch as per the required standards will be a key rating monitorable for annuity receipts without any major deductions. Ind-Ra in its O&M costs estimates has considered the cost incurred over the past few years and some cushion over and above the same. HREL recently completed a cycle of major maintenance with the total cost being around INR800 million. The next cycle of major maintenance is due post the repayment of entire external debt at the end of concession.

Moderate Debt Structure: The repayment follows a T+30 structure, i.e. the debt obligations are due 30 days post the receipt of annuities, repayment being due in April and October every year, giving the project some cushion against any delays in annuities. The project had a debt outstanding of INR6,010 million when it went under moratorium and was unable to service its debt obligations. However, post lifting the moratorium, the overdue principal was paid in February 2023 along with prepayment of INR600 million as per the terms of restructuring. HREL also maintains a DSRA as per the financing documents of INR643.2 million.

The project also has a sponsor loan outstanding of INR2,033.3 million which is subordinate to the external debt. Both debts carry a fixed interest rate of 7.5%, and non-payment of interest on the sponsor loan will not result in an event of default. The terms of the deed feature restricted payment conditions to be fulfilled before any restricted payment is made.

Liquidity

Adequate: The company generates adequate cash flow from its stable stream of NHAI annuities, with an average debt service coverage ratio (DSCR) of 1.4x. Even when stressed with deductions in the annuities and higher estimates of costs, the coverages are resilient. Moreover, the concessionaire has maintained liquidity reserves as envisaged in the initial NCD

structure, i.e. DSRA of INR643.2 million and adequate surplus cash.

Rating Sensitivities

Positive: Events that could, individually or collectively, lead to a positive rating action include:

receipt of annuities without any major performance-related deductions

sustained maintenance of the project stretches as per the stipulated standards.

Negative: Events that could, individually or collectively, lead to a negative rating action include:

sustained lower-than-expected annuities due to performance-related deductions and a significant increase in the O&M costs leading to average DSCR falling below 1.25x;

depletion of the stipulated liquidity reserves in line with financing agreement; and

any additional claims from the financial / operational creditor for past dues leading to significant deterioration in liquidity.

Any Other Information

Key Financial Covenants and Terms	HREL
Minimum DSCR	1.05x

ESG Issues

Unless otherwise disclosed in this section, the ESG issues are credit neutral or have only a minimal credit impact on HREL, due to either their nature or the way in which they are being managed by the entity and sponsor. For more information on Ind-Ra's ESG Relevance Disclosures, please click [here](#). For answers to frequently asked questions regarding ESG Relevance Disclosures and their impact on ratings, please click [here](#).

About the Company

HREL is a special purpose vehicle created by IL&FS Transportation Networks for designing, constructing and maintaining the four-lane Hazaribagh–Ranchi section of NH 33 in Jharkhand to 114km from 40.5km on a build-operate-transfer-annuity basis.

Key Financials Indicators

Particulars (INR million)	FY24	FY23
Revenue from operations	702.02	789.02
Total revenue	748.20	2,201.33
EBITDA	11.99	308.76
EBITDA margin (%)	1.60	14.02
Finance cost	390.36	1082.28
Interest coverage (EBITDA/interest, x)	0.03	0.28
Gross debt / EBITDA (x)	368.04	16.74
Cash and cash equivalent	627.98	620.93
Source: HREL		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook			
	Rating Type	Rated Amount (million)	Rating	5 September 2023	17 March 2023	21 March 2022	16 April 2021
Non-convertible debentures	Long-term	INR2,034.7	IND BBB/Positive	IND BB-/Stable	IND D	IND D	IND D

Complexity Level of the Instruments

Instrument type	Complexity Indicator
Non-convertible debentures	Low

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

Annexure

Instrument	ISIN	Date of Issue	Coupon Rate	Maturity date	Issue Size (million)	Rating/Outlook
			(%)			
NCDs	INE526S07569	14 February 2017	7.5	14 October 2024	INR249.15	IND BBB/Positive
NCDs	INE526S07551	14 February 2017	7.5	14 April 2025	INR249.15	IND BBB/Positive
NCDs	INE526S07536	14 February 2017	7.5	14 October 2025	INR249.15	IND BBB/Positive
NCDs	INE526S07486	14 February 2017	7.5	14 April 2026	INR257.45	IND BBB/Positive
NCDs	INE526S07494	14 February 2017	7.5	14 October 2026	INR290.67	IND BBB/Positive
NCDs	INE526S07437	14 February 2017	7.5	14 April 2027	INR307.28	IND BBB/Positive
NCDs	INE526S07445	14 February 2017	7.5	14 October 2024	INR58.13	IND BBB/Positive
NCDs	INE526S07478	14 February 2017	7.5	14 April 2025	INR70.59	IND BBB/Positive
NCDs	INE526S07460	14 February 2017	7.5	14 October 2025	INR83.05	IND BBB/Positive
NCDs	INE526S07585	14 February 2017	7.5	14 April 2026	INR87.2	IND BBB/Positive
NCDs	INE526S07593	14 February 2017	7.5	14 October 2026	INR70.59	IND BBB/Positive
NCDs	INE526S07577	14 February 2017	7.5	14 April 2027	INR62.28	IND BBB/Positive
NCDs	INE526S07510	14 February 2017	7.5	13 October 2023	INR240.84	WD
NCDs	INE526S07502	14 February 2017	7.5	12 April 2024	INR215.93	WD
NCDs	INE526S07429	14 February 2017	7.5	13 October 2023	INR66.44	WD
NCDs	INE526S07528	14 February 2017	7.5	12 April 2024	INR83.05	WD

Contact

Primary Analyst

Vandan Pasad

Analyst

India Ratings and Research Pvt Ltd

Wockhardt Towers, 4th Floor, West Wing, Bandra Kurla Complex, Bandra East, Mumbai - 400051

+91 22 40001710

For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst

Rishabh Jain

Associate Director

+919619523093

Media Relation

Ameya Bodkhe

Marketing Manager

+91 22 40356121

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APPLICABLE CRITERIA

Rating Criteria for Availability-Based Projects

Evaluating Corporate Governance

The Rating Process

Rating Criteria for Infrastructure and Project Finance

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