

## Hazaribagh Ranchi Expressway Limited (Revised)

October 27, 2023

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Non Convertible Debentures	197.69 (Reduced from 205.99)	CARE BB; Stable	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE C; Stable outlook assigned
Non Convertible Debentures	35.71 (Reduced from 58.13)	CARE BB; Stable	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE C; Stable outlook assigned

Details of instruments 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) takes into account improved liquidity profile with receipt of annuities due for current fiscal FY24 (FY refers to period April 01 to March 31), advanced stage of completion of first major maintenance (MM) cycle and removal of restrictions placed by National Company Law Appellate Tribunal (NCLAT) as a part of ILFS group entity pursuant to transfer of majority shareholding to Roadstar Infra Investment Trust (Roadstar InvIT), an InvIT by floated ITNL. However, the benefits accruing due to transfer to InvIT are yet to be seen.

The rating continues to factor in strengths derived from annuity nature of project, structured payment mechanism, whereby biannual annuity is received from National Highways Authority of India (NHAI, rated 'CARE AAA; Stable') 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 delays in receipt of annuity along with deductions made by NHAI, risk arising out of possibility of lower disbursement of annuity than stipulated due to non-adherence to clauses in concession agreement (CA) pertaining to maintenance of project stretch, absence of MM reserves and weak credit profile of O&M contractor.

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

#### Positive factors

- Timely receipt of annuities without any deductions along with recovery of goods and services tax (GST) & past deducted annuities
- Completion of the MM in a timely manner within the envisaged cost and time

#### 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

### Analytical approach: Standalone

#### Outlook: Stable

The stable outlook reflects the expectation of timely receipt of annuities from the authority without any deduction and maintenance of liquidity in the SPV, thereby supporting the debt coverage metrics.

### Detailed description of the key rating drivers:

#### Key weaknesses

**Delay in receipt of annuities:** Since the commencement of commercial operations, the company has been receiving annuities with a delay (except two annuities) with the gap between annuity due date and receipt date varying between 3 days to 221 days. A 'T+30' structure has been provided for NCD repayment with 'T' being the NHAI annuity receipt date to take care of any

<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

operational delay in receipt of annuity from NHAI. However, annuity delays beyond 30 days in the past remains a concern. Apart from delays in annuity receipt, there have been deductions due to non-maintenance of road as per specifications in CA. Also, NHAI has withheld amount of ₹6.41 crore each (10% of the annuity) from 21<sup>st</sup> and 22<sup>nd</sup> annuity due to ongoing MM. 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 two annuities amounting to about ₹23 crore, however, the same is yet to be reimbursed by NHAI.

**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 which 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. Hence, there is no comfort drawn from the fixed price contract.

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.

**Weak credit profile of sponsor group:** The shareholding of HREL was transferred to InvIT- Roadstar Infra Investment Trust (Roadstar InvIT) in FY23 and with this transfer ITNL ceases to be the direct project sponsor. The role of ITNL has reduced from being sponsor of HREL to unitholder of InvIT with no role in operations of InvIT as the same would be managed by independent board of investment manager thereby improving corporate governance and better control. While transfer to InvIT has resulted in the company out of various restrictions placed on the IL&FS group entities, the benefits are yet to accrue and remain to be seen. As of now, there has been no liquidity infusion in the entity in any form and manner.

## Key strengths

**Improvement in liquidity profile:** The liquidity profile of the HREL has improved during the last two years with receipt of pending annuities on account of resolution of pending right of way (RoW) issue leading to negative change of scope. The recovery of withheld portion of the 18<sup>th</sup> and 19<sup>th</sup> annuity has further improved the liquidity of the company. With transfer of shareholding of HREL to Roadstar InvIT, HREL was out of the restrictions placed by NCLAT and accordingly, the company has repaid its previous overdues in February 2023 along with prepayment of ₹60 crore through surplus funds available with the company. The clearing of previous debt overdue along with prepayment has resulted in reduction in the debt servicing obligation and has led to improved debt coverage metrics. The company has also timely serviced its debt obligation due on April 14, 2023 and October 14, 2023.

**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. The cashflows are expected to adequately cover the lenders debt with debt coverage metrics expected to remain comfortable.

**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 ₹80 crore. The balance MM work pending amounts to ₹1.83 crore as on October 12, 2023. The

company has not been maintaining the Major maintenance reserve for the first MM and has been funding the first MM from project cashflow.

**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 (revised from 8% post transfer to InvIT) throughout the remaining tenure of the NCDs thereby eliminating interest rate risk.

#### **Liquidity:** Adequate

The liquidity position of HREL is adequate with cash flow receivable from NHAI in the form of annuity of ₹128.16 crore as against repayment of senior debt of ₹60.63 crore in FY24 with a 'T+30' repayment structure and presence of DSRA of ₹53 crore as on October 10, 2023 (covers more than the total semi-annual debt obligation) in the form of mutual funds. The entire debt servicing for FY24 has been done with next repayment due in April 2024.

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.

**Assumptions/Covenants:** Not applicable

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

#### **Applicable criteria**

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Annuity Road Projects](#)

[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 ₹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, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	73.58	78.90	22.29
PBILDT	56.50	(2.13)	9.84
PAT	68.67	30.87	(0.13)
Overall gearing (times)	10.00	121.37	117.94
Interest coverage (times)	1,345.14	NM	0.89

A: Audited, UA: Unaudited, 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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-Convertible Debentures	INE526S07437	14-Feb-2017	7.50%	14-Apr-2027	30.73	CARE BB; Stable
Non-Convertible Debentures	INE526S07445	14-Feb-2017	7.50%	14-Oct-2024	5.81	CARE BB; Stable
Non-Convertible Debentures	INE526S07460	14-Feb-2017	7.50%	14-Oct-2025	8.31	CARE BB; Stable
Non-Convertible Debentures	INE526S07478	14-Feb-2017	7.50%	14-Apr-2025	7.06	CARE BB; Stable
Non-Convertible Debentures	INE526S07486	14-Feb-2017	7.50%	14-Apr-2026	25.75	CARE BB; Stable
Non-Convertible Debentures	INE526S07494	14-Feb-2017	7.50%	14-Oct-2026	29.07	CARE BB; Stable
Non-Convertible Debentures	INE526S07502	14-Feb-2017	7.50%	12-Apr-2024	21.59	CARE BB; Stable
Non-Convertible Debentures	INE526S07528	14-Feb-2017	7.50%	12-Apr-2024	8.31	CARE BB; Stable
Non-Convertible Debentures	INE526S07536	14-Feb-2017	7.50%	14-Oct-2025	24.92	CARE BB; Stable
Non-Convertible Debentures	INE526S07551	14-Feb-2017	7.50%	14-Apr-2025	24.92	CARE BB; Stable
Non-Convertible Debentures	INE526S07569	14-Feb-2017	7.50%	14-Oct-2024	24.92	CARE BB; Stable
Non-Convertible Debentures	INE526S07577	14-Feb-2017	7.50%	14-Apr-2027	6.23	CARE BB; Stable
Non-Convertible Debentures	INE526S07585	14-Feb-2017	7.50%	14-Apr-2026	8.72	CARE BB; Stable
Non-Convertible Debentures	INE526S07593	14-Feb-2017	7.50%	14-Oct-2026	7.06	CARE BB; Stable

**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 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Debentures-Non Convertible Debentures	LT	197.69	CARE BB; Stable	1)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)	1)CARE D; ISSUER NOT COOPERATING* (23-Jun-20)
2	Debentures-Non Convertible Debentures	LT	35.71	CARE BB; Stable	1)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)	1)CARE D; ISSUER NOT COOPERATING* (23-Jun-20)

**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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