

India Ratings Upgrades Hazaribagh Ranchi Expressway's NCDs to 'IND BB-/Stable'

Sep 05, 2023 | Road Assets—Toll | Annuity | Hybrid-Annuity

India Ratings and Research (Ind-Ra) has upgraded the ratings on Hazaribagh Ranchi Expressway Limited's (HREL) non-convertible debentures (NCDs) to 'IND BB-' from 'IND D' with a Stable Outlook as follows:

Instrument	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Senior NCDs*	-	-	-	INR5,380 (outstanding INR2,059.6 as on date)	IND BB-/Stable	Upgraded
Subordinate NCDs*	-	-	-	INR1,770 (outstanding INR581.3 as on date)	IND BB-/Stable	Upgraded

* Details in annexure

The upgrade reflects HREL's timely debt servicing since February 2023, major maintenance activity nearing completion and minimal risk of performance-related deductions in annuity, given the satisfactory road quality.

Key Rating Drivers

Major Maintenance Nearly Over; Minimal Risk of Performance-Related Annuity Deductions: Ind-Ra does not expect any further performance-related deductions in annuities since the major maintenance work is largely completed. The recent 21st annuity witnessed no deduction and the independent engineer (IE) has recommended for 22nd annuity without any deductions.

The project has received 21 timely annuities due semi-annually in March and September with minimal delays with minor deductions due to maintenance delays and defaults. INR8.8 million and INR5.2 million were deducted from the 20th and 19th annuity, respectively, on account of minor defaults such as unresolved reflectorised signs, minor faults in street lights, and repair of joints. Moreover, the 21st annuity was INR64.08 million (being 10% of annuity) withheld on account of a delay in the major maintenance, which the management expects to be released till end-September 2023.

Low Revenue Risk Profile: The project annuities are secured through an escrow account of the fixed, semi-annual annuity streams under a concession agreement from National Highways Authority of India (NHAI; 'IND AAA'/Stable). The company has, so far, received 21 half-yearly annuities of INR640.8 million each with minimum delays. The last annuity was received on 28 March 2023.

Heightened O&M Risk: Maintaining the project according to the requirements of the concession agreement could pose a

challenge due to constant maintenance issues. Project maintenance is key for continued and timely receipts of semi-annual annuities from NHAI. HREL has entered into a fixed price contract with Elsamex Maintenance Services Limited for taking up routine and major maintenance expenses. The project's O&M costs are significantly higher than Ind-Ra estimates and the maintenance of the project stretch as per the required standards will be a key rating monitorable for annuity receipts without any 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.

The project has largely completed the major maintenance and the cost for this cycle is around INR880 million. A major maintenance reserve would be created for the next cycle of about INR170 million as against the estimated cost of INR880 million, since majority of the cost would be funded through project cash flows during the tail period.

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 from the National Company Law Appellate Tribunal order (October 2018) till the transfer of assets to an InvIT Roadstar Infra Investment Trust (December 2022) of INR2,470 million was paid in February 2023. INR600 million was prepaid in February 2023. Post the said payments, the outstanding debt was INR2,940 million at end-February 2023.

The next repayment which was scheduled in April 2023, was timely serviced post which the debt outstanding stands at INR2,640 million. The project also has a sponsor loan outstanding of INR2,229.86 million which is subordinated 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 default.

Liquidity Indicator - 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 10% deductions in the annuities and higher estimates of costs, DSCR did not fall below 1.2x. Moreover, the concessionaire has maintained financial reserves as envisaged in the initial NCD structure, i.e. a debt service reserve of INR530 million and surplus cash of INR191 million. The available liquidity is adequate to cover next one year of debt repayments. The next repayment is scheduled in October 2023 which is post receipt of 22nd annuity in September 2023.

Rating Sensitivities

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

- an established track record of nil performance deductions; and
- 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:

- a significant increase in the O&M costs than the estimates;
- deficiencies in the maintenance of road, leading to performance deductions in the annuities;
- depletion of the stipulated liquidity reserves and not maintaining the same as per the terms of agreement; and
- any additional claims from the financial / operational creditor for past dues leading to significant deterioration in liquidity.

ESG Issues

ESG Factors Minimally Relevant to Rating: 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](#).

Company Profile

HREL is a special purpose vehicle created by IL&FS Transportation Networks Limited ('IND D') 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.

NHA awarded the project to HREL under a competitive bidding process on 8 October 2009. The company received the final completion certificate on 1 April 2015.

The concession period is for 18 years commencing from the appointed date, including a construction period of 910 days. HREL achieved provisional completion on 15 September 2012 and received the first annuity of INR640.8 million (semi-annual) in July 2013. The project was completed ahead of time and the commercial operation date was achieved 134 days ahead of the scheduled project completion which entitled HREL to receive an early completion bonus of INR470 million in FY14.

FINANCIAL SUMMMARY

Particulars (INR million)	FY23	FY22
Operating revenue	789	736
Total income	2,201	858
EBITDA	309	687
Cash and cash equivalents	621	2,252
Long-term external debt	2,940	5,836
Source: HREL audited financials		

Non-Cooperation with previous rating agency

HREL has been classified under the non-cooperation by issuer category by CARE Ratings Limited due to inadequate information provided by the company.

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

Instrument Type	Current Rating			Historical Rating			
	Rating Type	Rated Amount (million)	Rating	17 March 2023	21 March 2022	16 April 2021	17 April 2020
NCDs	Long-term	INR7,150	IND BB-/Stable	IND D	IND D	IND D	IND D

Annexure

Instrument	ISIN	Date of Issue	Coupon Rate (%)	Maturity date	Issue Size	Rating/Outlook
NCDs	INE526S07510	14 February 2017	7.5	13 October 2023	INR240.84	IND BB-/Stable
NCDs	INE526S07502	14 February 2017	7.5	12 April 24	INR215.93	IND BB-/Stable
NCDs	INE526S07569	14 February 2017	7.5	14 October 24	INR249.15	IND BB-/Stable
NCDs	INE526S07551	14 February 2017	7.5	14 April 25	INR249.15	IND BB-/Stable
NCDs	INE526S07536	14 February 2017	7.5	14 October 25	INR249.15	IND BB-/Stable
NCDs	INE526S07486	14 February 2017	7.5	14 April 26	INR257.45	IND BB-/Stable
NCDs	INE526S07494	14 February 2017	7.5	14 October 26	INR290.67	IND BB-/Stable
NCDs	INE526S07437	14 February 2017	7.5	14 April 27	INR307.28	IND BB-/Stable
NCDs	INE526S07429	14 February 2017	7.5	13 October 23	INR66.44	IND BB-/Stable
NCDs	INE526S07528	14 February 2017	7.5	12 April 24	INR83.05	IND BB-/Stable
NCDs	INE526S07445	14 February 2017	7.5	14 October 24	INR58.13	IND BB-/Stable
NCDs	INE526S07478	14 February 2017	7.5	14 April 25	INR70.59	IND BB-/Stable
NCDs	INE526S07460	14 February 2017	7.5	14 October 25	INR83.05	IND BB-/Stable
NCDs	INE526S07585	14 February 2017	7.5	14 April 26	INR87.2	IND BB-/Stable
NCDs	INE526S07593	14 February 2017	7.5	14 October 26	INR70.59	IND BB-/Stable
NCDs	INE526S07577	14 February 2017	7.5	14 April 27	INR62.28	IND BB-/Stable

Bank wise Facilities Details

Click here to see the details

Complexity Level of Instruments

Instrument Type	Complexity Indicator
NCDs	Low

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

Contact

Primary Analyst

Rishabh Jain

Senior Analyst

India Ratings and Research Pvt Ltd

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

+91 22 40356167

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

Secondary Analyst

Vandan Pasad

Senior Research Associate

Chairperson

Vishal Kotecha

Director

+91 22 40356136

Media Relation

Ameya Bodkhe

Marketing Manager

+91 22 40356121

APPLICABLE CRITERIA

Rating Criteria for Infrastructure and Project Finance

Rating Criteria for Availability-Based Projects

Evaluating Corporate Governance

Default Recognition and Post-Default Curing Period

The Rating Process

DETAILED FINANCIAL SUMMARY

Click Here to Download

DISCLAIMER

All credit ratings assigned by india ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.indiaratings.co.in/rating-definitions>. In addition, rating definitions and the terms of use of such ratings are available on the agency's public website www.indiaratings.co.in. Published ratings, criteria, and methodologies are available from this site at all times. India ratings' code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the code of conduct section of this site.