GMR Pochanpalli Expressways Limited

August 30, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	20.00	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Revised from CARE B-; Stable (Single B Minus; Outlook: Stable)
Total Bank Facilities	**20.00 (₹ Twenty Crore Only)**		
Non Convertible Debentures	215.15 (Reduced from 258.33)	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Revised from CARE B-; Stable (Single B Minus; Outlook: Stable)
Total Long Term Instruments	**215.15 (₹ Two Hundred Fifteen Crore and Fifteen Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the rating assigned to the bank facilities and Non-Convertible Debentures of GMR Pochanpalli Expressways Limited (GPEL) is due to the improvement in the liquidity position with receipt of annuities from National Highways Authority of India (NHAI) in a regular manner without any major deduction thereby enabling liquidity built up. CARE also notes the favourable judgment by the High Court of Delhi with respect to the arbitration proceedings between GPEL and NHAI which may provide upside to the cashflows going ahead.

The rating continues to remain subdued due to the exposure of GPEL to group companies with sizeable advances extended to group entities with weak credit profile, non-maintenance of Major Maintenance Reserve Account (MMRA) and modest debt coverage metrics.

However, the rating is underpinned by the operational annuity project with no exposure to traffic risk, timely receipt of annuities, low credit risk associated with annuity provider, fixed rate of interest mitigating interest rate risk and long track record of operations.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Recovery of funds from group entities and reduction in exposure on sustained basis.
- Improvement in liquidity profile of the company marked by improvement in cash balances while meeting maintenance expenses every year.
- Adherence to the financial covenants of the DTD with DSCR maintained at 1.2x

Negative factors – Factors that could lead to negative rating action/downgrade:

- Any adverse impact on the cashflow position due to unfavourable outcome of the ongoing litigation in court.
- Non-receipt/delayed/reduced receipt of annuity thereby impacting the liquidity profile

Detailed description of the key rating drivers

<u>Key rating strengths</u>

Operational annuity project with timely receipt of annuities

The project revenues are linked with the annuity receivables from NHAI and not dependent on the traffic on the project stretch. However, the annuity receivables are subject to full availability and regular maintenance of the project stretch as per terms of concession agreement. As on March 31, 2022, the company has received 26 annuities from NHAI. All the annuities are being received in a timely manner. In the past, deductions were made by NHAI while remitting the 18th and 22nd annuities due to non-fulfilment of major maintenance obligations as per NHAI. However, as the matter is sub-judiced at High Court of Delhi, the company has been receiving almost full annuities (except a small deduction of Rs.1.98 crore from September 2021 annuity which has been partially released along with March 2022 annuity).

With release of almost entire annuity receipts, the liquidity profile has improved relatively with liquid funds in range of Rs.5-9 crore maintained by the company. As on July 31, 2022, the company had liquid funds (excluding funds lien marked) aggregating Rs.8.00 crore which provides cushion to the cashflows.

Low credit risk associated with the Annuity provider – NHAI

NHAI is a statutory body, incorporated by the Govt. of India under act of Parliament. It functions as a nodal agency for development, maintenance and management of the National Highways in the country. By virtue of being a quasi-government body, the risk arising from NHAI defaulting on the annuity payments is very low.

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[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Fixed price O&M Contract and interest rate on NCD
The company has entered into a fixed price agreement with O&M contractor (i.e GMR Highways Limited) for the regular maintenance of the stretch. The fixed price contract reduces risk associated with rising input prices.
The interest rate on the NCD issuance is also fixed which also protects the cashflows from fluctuation in interest rates.

Key rating weaknesses
Weakened strength of the structure with continued exposure to group companies
GPEL has advanced funds to group companies which stood at Rs.333 crore as on March 31, 2022 (Rs.344 crore as on March 31, 2021). Majority of the exposure is in entities with relatively weak credit profile. The transfer of funds is inconsistent with the structure originally envisaged and has diluted the strong credit quality inbuilt in the structure. With a negative tail period, the timelines of recovery to fund any cashflow mismatch is crucial from credit perspective.

Pending finalization of ongoing litigation
NHAI had levied a penalty on account of pending major maintenance of the project which was disputed by GPEL. The company had invoked the arbitration proceedings against NHAI in respect of the dispute on applicability of carrying out of major maintenance of the road project once in every five years as per the Concession Agreement.
On April 6, 2022, the High Court of Delhi has a passed a judgement in favour of GPEL entitling the latter to the cost with respect to the overlay as the same was not warranted as the roughness index was below 2000mm/km. The court has also directed NHAI to pay the amount of deduction along with interest @12% p.a from the date of deduction (March 15, 2015) till the date of payment. However, the claim of Rs. 104.47 crore is not adjudicated by the Arbitral Tribunal, and the quantification of the claim is pending before Justice D.K Jain. Hence, any adverse outcomes from the litigation forms an important point from a credit perspective.

Non maintenance of MMRA
The company is entitled to full receipt of annuities subject to maintenance of stretch as per the specifications of the Concession Agreement. However, for incurring the major maintenance, there is no reserve built up and the expenditure is being incurred from project cashflows on a yearly basis.

Liquidity: Stretched
Although the liquidity profile of GPEL has improved, it continues to remain stretched. The company has a free cash balance of around Rs. 8.00 crore as on July 31, 2022. However, the cash flow available for debt servicing is tightly matched against the debt servicing obligations resulting in weak debt service coverage. The company also does not have funded Debt Service Reserve Account (DSRA) and/or MMR.

Analytical approach: Standalone

Applicable criteria
Annuity Road Projects
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Policy on default recognition
Rating Outlook and Credit Watch

About the company
GMR Pochanpalli Expressways Private Limited (GPEL) was incorporated as a Special Purpose Vehicle (SPV) by GMR group on October 18, 2005 to develop and maintain the 102-km stretch on the National Highway (NH)-7 connecting Adloor Yellareddy and Gundla Pochanpalli in the state of Andhra Pradesh. The concession was awarded by NHAI on Build, Operate and Transfer (BOT) Annuity Basis to the consortium based on its lowest annuity quote of Rs.108.36 crore (payable semi-annually). GPEL has entered into a Concession Agreement (CA) with NHAI on March 31, 2006 for the project. The project achieved Commercial Operations Date (COD) on March 26, 2009. GPEL received its first annuity from NHAI in September 2009.
As on March 31, 2022, GMR Highways Limited along with GMR Power and Urban Infra Limited and GMR Energy Limited held 100% stake of GPEL.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (U/A)
Total operating income	110.40	103.75	NA
PBILDT	62.91	62.53	NA
PAT	7.99	16.28	NA
Overall gearing (times)	1.77	1.31	NA
Interest coverage (times)	1.30	1.59	NA

A: Audited; NA – Not available

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

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-fund-based - LT-Bank Guarantee		-	-	-	20.00	CARE BB-; Stable
Debentures-Non Convertible Debentures	**INE808H07010**	April 15, 2010	9.38%	October 15, 2026	215.15	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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Debentures-Non Convertible Debentures	LT	215.15	CARE BB-; Stable	-	1)CARE B-; Stable (02-Sep-21)	1)CARE D (22-Mar-21) 2)CARE D (07-Sep-20) 3)CARE BB (CWN) (28-Apr-20)	1)CARE BBB-; Negative (04-Oct-19)
2	Non-fund-based - LT-Bank Guarantee	LT	20.00	CARE BB-; Stable	-	1)CARE B-; Stable (02-Sep-21)	1)CARE D (22-Mar-21) 2)CARE D (07-Sep-20) 3)CARE BB (CWN) (28-Apr-20)	1)CARE BBB-; Negative (04-Oct-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities : NA

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Debentures-Non Convertible Debentures	Simple
2	Non-fund-based - LT-Bank Guarantee	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on 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 for any clarifications.

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