GMR Pochanpalli Expressways Limited (Revised)

September 02, 2021

Ratings

Facilities / Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	20.00	CARE B-; Stable (Single B Minus; Outlook: Stable)	Revised from CARE D (Single D); Stable outlook assigned
Total Bank Facilities	**20.00 (Rs. Twenty Crore Only)**		
Non Convertible Debentures	258.33 (Reduced from 284.93)	CARE B-; Stable (Single B Minus; Outlook: Stable)	Revised from CARE D (Single D); Stable outlook assigned
Total Long Term Instruments	**258.33 (Rs. Two Hundred Fifty-Eight Crore and Thirty-Three Lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities and debt instrument of GMR Pochanpalli Expressways Limited (GPEL) is on account of improvement in liquidity due to receipt of last two annuities from National Highways Authority of India (NHAI), without any deductions, and consequent regularization of debt servicing. The rating continues to remain constrained by the weakened strength of the structure with continuing exposure of GPEL towards group companies and sizeable advances extended to group entities with weak credit profile, pending outcome of the ongoing litigation with NHAI in Hon'ble High Court of Delhi and weak liquidity profile with low liquid funds available and absence of funded Debt Service Reserve Account and Major Maintenance Reserve Account (MMRA). Absence of MMRA can negatively impact the liquidity in case of unfavorable judgement in High Court w.r.t the incurrence of major maintenance expenditure. The rating, however, is underpinned by the operational annuity project with no exposure to traffic risk, timely receipt of annuities, low credit risk associated with annuity provider and long track record of operations.

Rating Sensitivities

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

- ✓ Recovery of funds from group companies 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.

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

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

- Any adverse impact on the cashflow position due to unfavourable outcome of the ongoing litigation in court.
- Non-receipt/delay/reduced receipt of annuity

Detailed description of the key rating drivers

Key Rating Strengths

Improvement in liquidity profile with regularization of debt servicing:

The company faced liquidity issue due to reduction of 22nd annuity to ~Rs.39 crore on March 26, 2020 as against Rs.54.18 crore as per Concessionaire Agreement (CA), on account of delay in major maintenance of the stretch. Given the liquidity stretch due to annuity reduction, the company had sought moratorium which was rejected and hence due to cashflow mismatch there were delays in debt servicing till January 2021. The company recovered annuity dues in September 2020 and March 2021 without any deduction which along with recovery of advances from group resulted in improvement in liquidity position. Consequently, the debt servicing was regularized with the instalment due on April 15, 2021 repaid in a timely manner.

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, 2021, GPEL has received 24 annuities from NHAI. All the annuities have been received in a timely manner. However, there have been deductions from annuity due to non-incurrence of major maintenance expenditure as per NHAI.

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.

Satisfactory track record of operating and maintaining the stretch

The company has established track record of maintaining the stretch as per the terms and largely received full annuities from NHAI since commissioning of the project in 2009. The company has also entered into agreement with O&M contractor for the regular maintenance of the stretch.

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.344 crore as on March 31, 2021 (Rs.347 crore as on March 31, 2020). 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. The company has recovered some advances from the group during FY20-21, however timelines of recovery to fund any cashflow mismatch is crucial from credit perspective.

Pending outcome of the 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 January 14, 2020, the Tribunal had pronounced the award wherein it had not agreed with the contention of the company and had mandated the company to carry out the major maintenance from April 01, 2020 while directing NHAI to refund the deducted annuity amount with interest and cost of litigation. Both the parties have appealed in Hon'ble High Court of Delhi and the matter is sub-judice.

Hence, ability of the company to mobilize required funds from group companies and adherence with transaction structure including, inter-alia, maintenance of Major Maintenance Reserve Account (MMRA) will continue to be important from credit perspective.

Liquidity indicator – Poor

There have been annuity deductions in the past which had stretched the liquidity profile of the company. With recovery of full annuities due in September 2020 and March 2021, the liquidity profile has improved resulting in regularization of debt servicing. However, the company does not have funded DSRA and/or liquid funds thereby resulting in significant dependence on timely receipt of annuities in full. The company had cash balance of Rs.3.00 crore as on July 31, 2021. The liquidity is also susceptible to any adverse outcome of the ongoing litigation with respect to incurrence of major maintenance expenditure.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Financial Ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology – Annuity-based Road Projects

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, 2021, GMR Highways Limited along with GMR Infrastructure Limited and GMR Energy Limited held 100% stake of GPEL.

Brief Financials (Rs. crore)	FY20 (Audited)	FY21 (Audited)
Total operating income	89.03	110.20

Brief Financials (Rs. crore)	FY20 (Audited)	FY21 (Audited)
PBILDT	69.23	62.91
PAT	11.81	7.99
Overall gearing (times)	2.01	1.77
Interest coverage (times)	1.18	1.30

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 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 (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT-Bank Guarantees	-	-	-	-	20.00	CARE B-; Stable
Debentures-Non Convertible Debentures	INE808H07010	April 15, 2010	9.38%	October 15, 2026	258.33	CARE B-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Debentures-Non Convertible Debentures	LT	258.33	CARE B-; Stable	-	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)	1)CARE BBB (SO); Stable (28-Dec-18)
2.	Non-fund-based - LT-Bank Guarantees	LT	20.00	CARE B-; Stable	-	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)	1)CARE BBB (SO); Stable (28-Dec-18)

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

Annexure 4: Complexity level of various instruments rated for this Company

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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.