

GMR Pochanpalli Expressways Limited

April 28, 2020

Ratings

Facilities/Instrument	Amount (Rs. crore)	Rating ¹	Rating Action
Non-Convertible Debenture issue	353.10 (Rupees Three Hundred Fifty Three Crore and Ten Lakhs Only)	CARE BB (Double B) (Under credit watch with negative implications)	Revised from CARE BBB-; Negative (Triple B Minus; Outlook: Negative) Placed on credit watch with negative implications
Long term Bank Facilities (Bank Guarantee)	20.00 (Rupees Twenty Crore Only)	CARE BB (Double B) (Under credit watch with negative implications)	Revised from CARE BBB-; Negative (Triple B Minus; Outlook: Negative) Placed on credit watch with negative implications

Details of instruments/facilities in Annexure-1
Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the NCDs and bank facilities of GMR Pochanpalli Expressways Ltd (GPEL) factors in the deduction in annuity (22nd annuity) by National Highway Authority of India (NHAI) on account of delay/pending major maintenance of the stretch. Also, as per outcome of arbitration proceedings, the Tribunal has directed the company to complete the major maintenance of the stretch within 9 months starting Apr 1, 2020. The lower annuity receipt coupled with committed major maintenance expenditure has led to stretched liquidity position of the company. The company has extended sizable advances, to the group companies majority of which are to weaker entities and hence the timely recovery of such funds shall have bearing on the ability of the company to carry out the major maintenance.

The ratings are continue to constrained by weakened strength of the structure with continuing exposure of GPEL towards group companies and adverse outcome of the arbitration proceedings. However, the ratings continues to draw comfort from the 'annuity' nature of the project revenues with no exposure to traffic risk coupled with low counterparty risk and satisfactory track record of operations.

Further CARE has placed the ratings of GMR Pochanpalli Expressways Limited (GPEL) on credit watch with negative implications following the non-receipt of approval towards deferment of interest and principal obligations sought by the company from the investor. GPEL had sought moratorium of three months (March 01, 2020 to May 31, 2020) on debt service obligations from investor of NCDs pursuant to the Reserve Bank India's (RBI) circular and Insurance Regulatory and Development Authority's (IRDA) circular in the context of outbreak of COVID-19. The company had debt obligations due on April 15, 2020 for which it had sought deferment from investor. CARE is monitoring the situation and will assess the profile of GPEL once clarity emerges on the final status of moratorium.

Rating sensitivities
Positive Factors

- Timely receipt of funds back from the group companies and reduction in exposure on sustained basis.
- Completion of major maintenance of the stretch as per timelines given by the Tribunal.
- Restoration of full annuity amount as per concession agreement by NHAI.

Negative Factors

- Adverse outcome of moratorium approval process pending at investor's end.
- Delay in major maintenance as per timelines.
- Non-receipt/delayed/reduced receipt of annuities from NHAI

Detailed description of the key rating drivers
Key Rating Weaknesses
Reduction in annuity leading to moderation in debt coverage indicators

NHAI has reduced the annuity to around Rs. 39 crore as per 22nd annuity received on March 26, 2020 against Rs. 54.18 crore as per concession agreement on account of delay in major maintenance of the stretch. The reduction in annuity has led to the moderation in the debt coverage indicators and has impacted the overall debt service capability of the company.

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

Adverse outcome of arbitration proceedings

GPEL had invoked the arbitration proceedings against NHAH on account of penalty levied by NHAH (Rs. 10.78 crore deducted from 18th annuity) for delay in completion of first periodic major maintenance of the stretch. The company had raised claim of Rs. 104 crore on NHAH for expenditure incurred on unwarranted major maintenance in FY15. On January 14, 2020, the Hon'ble Tribunal has pronounced the award and has directed the company to carry out the major maintenance irrespective of the roughness index. The tribunal has directed the company to commence the major maintenance with effect from April 01, 2020 and complete it within 9 months. The tribunal has also directed the NHAH to refund amount of Rs. 10.79 crore along with interest @12%. The company shall file appeal in the High Court with respect to the rejection of the claim for reimbursement of amount spent on unwarranted major maintenance once the lockdown is over.

The company has proposed to incur Rs. 93 crore on the major maintenance till December 31, 2020 (to be extended due to lockdown). Given, the significant funds extended to group companies and reduction in annuity by NHAH, the company has high reliance on timely receipt of funds back from group companies to carry out the major maintenance of the stretch.

Weakened strength of structure with continuing exposure to group companies

GPEL has advanced funds to group companies which stood at Rs. 259.64 crore as on March 31, 2019 (PY: Rs. 203.12 crore). The total support to group companies stood at Rs. 303.11 crore including the interest accrued on loans and advances as on March 31, 2019 (PY: 251.86 crore). The transfer of funds is inconsistent with the structure originally envisaged and has diluted the strong credit quality inbuilt in the structure. Though, the company has recovered Rs. 18.23 crore from group companies in FY20, the company is yet to recover significant portion of advances from group companies.

Key Rating Strengths***Annuity nature of project revenues thus eliminating traffic risk***

The project revenues are linked with the annuity receivables from NHAH 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.

Established track record of annuity receipt and low counter party credit risk

The project has low counter party credit risk marked by established delay free track record of annuity receipt coupled with comfortable financial risk profile of NHAH (rated CARE AAA; Stable). GPEL has received twenty annuities from NHAH till now. The annuity payments are due semi-annually in mid of September and March of every year and have been regular without any delay.

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 NHAH 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.

Liquidity profile- Stretched

The company has stretched liquidity position marked by reduction in annuity and significant amount to be spent on the major maintenance of the stretch in the near term. The excess funds have been given to group companies which have relatively weak financial profile. The timely recovery of funds from group companies would be important for the overall credit profile of GPEL. The company has free cash and liquid investments of around Rs. 16 crore as on current date. Further, absence of funded DSRA makes the company dependent on timely receipt of annuities for debt servicing though the company has maintained DSRA of Rs. 20.00 crore in the form of bank guarantee.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Rating Methodology – Infrastructure Sector Ratings](#)

[Financial ratios – Non-Financial Sector](#)

About the Company

GMR Pochanpalli Expressways Private Limited (GPEL) was incorporated as a Special Purpose Vehicle (SPV) by the 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. As on March 31, 2017, GMR Highways Limited (GHL) along with GMR Infrastructure Limited (GIL) and GMR Energy Limited (GEL), held 100% stake of GPEL. 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 crore (payable semi-annually). GPEL has entered into a Concession Agreement (CA) with NHAI on March 31, 2006 for the project. The project cost of Rs. 702.26 crore has been funded by way of equity Rs.138 crore, preference shares of Rs.12.26 crore from the promoters and the balance Rs.552 crore by way of debt. The project achieved Commercial Operations Date (COD) on March 26, 2009.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	102.40	83.30
PBILDT	64.29	66.71
PAT	11.16	5.59
Overall gearing (times)	2.55	2.35
Interest coverage (times)	1.31	1.12

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	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 BB (Under Credit watch with Negative Implications)
Debentures-Non Convertible Debentures (ISIN- INE808H07010)	April 15, 2010	9.38%	October 15, 2026	353.10	CARE BB (Under Credit watch with Negative Implications)

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Debentures-Non Convertible Debentures	LT	353.10	CARE BB (Under Credit watch with Negative Implications)	-	1)CARE BBB-; Negative (04-Oct-19)	1)CARE BBB (SO); Stable (28-Dec-18)	1)CARE A-(SO); Stable (19-Jan-18)
2.	Non-fund-based - LT-Bank Guarantees	LT	20.00	CARE BB (Under Credit watch with Negative Implications)	-	1)CARE BBB-; Negative (04-Oct-19)	1)CARE BBB (SO); Stable (28-Dec-18)	1)CARE A-(SO); Stable (19-Jan-18)

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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